**Element Fleet Management Corp.**

# Management Discussion and Analysis

June 30, 2020

The following management discussion and analysis ("MD&A") provides information management believes is relevant to an assessment and understanding of the consolidated financial condition and consolidated results of operations of Element Fleet Management Corp. (the "Company", "we" or "Element") as at and for the three- and six-month periods ended June 30, 2020 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements as at and for the three- and six-month periods ended June 30, 2020 and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2019 (the "Annual Financial Statements") filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. All dollar amounts in this MD&A are expressed in Canadian dollars unless otherwise specified and all numbers are in thousands, unless otherwise specified or for per share amounts or ratios. References to "Q2 2020", "this quarter", or "the quarter" are to the fiscal quarter-ended June 30, 2020 and references to "Q1 2020" and "Q2 2019" are to the fiscal quarters ended March 31, 2020 and June 30, 2019, respectively. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.elementfleet.com.

## CAUTIONARY STATEMENT

**THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO JULY 28, 2020. CERTAIN STATEMENTS IN THIS MD&A, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF APPLICABLE SECURITIES LAWS AND MAY CONTAIN FORWARD-LOOKING INFORMATION. SUCH STATEMENTS ARE BASED UPON ELEMENT'S AND ITS MANAGEMENT'S CURRENT INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THESE STATEMENTS MAY INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING THE OPERATIONS, BUSINESS, FINANCIAL CONDITION, EXPECTED FINANCIAL RESULTS, PERFORMANCE, PROSPECTS, OPPORTUNITIES, PRIORITIES, TARGETS, GOALS, ONGOING OBJECTIVES, STRATEGIES AND OUTLOOK OF ELEMENT. FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS THAT ARE PREDICTIVE IN NATURE, DEPEND UPON OR REFER TO FUTURE EVENTS OR CONDITIONS. IN SOME CASES, WORDS SUCH AS "PLAN", "EXPECT", "INTEND", "BELIEVE", "ANTICIPATE", "ESTIMATE", "TARGET", "PROJECT", "FORECAST", "MAY", "IMPROVE", "WILL", "POTENTIAL", "PROPOSED" AND OTHER SIMILAR WORDS, OR STATEMENTS THAT CERTAIN EVENTS OR CONDITIONS "MAY" OR "WILL" OCCUR ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS AND FORWARD-LOOKING INFORMATION. FORWARD-LOOKING STATEMENTS (INCLUDING THOSE REGARDING FINANCIAL OUTLOOK) ARE PROVIDED FOR THE PURPOSES OF ASSISTING THE READER IN UNDERSTANDING ELEMENT AND ITS BUSINESS, OPERATIONS, RISKS, FINANCIAL PERFORMANCE, FINANCIAL POSITION AND CASH FLOWS AS AT AND FOR THE PERIODS ENDED ON CERTAIN DATES AND TO PRESENT INFORMATION ABOUT MANAGEMENT'S CURRENT EXPECTATIONS AND PLANS RELATING TO THE FUTURE AND THE READER IS CAUTIONED THAT SUCH STATEMENTS MAY NOT BE APPROPRIATE FOR OTHER PURPOSES. THESE STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS OR EVENTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS OR INFORMATION. UNDUE RELIANCE SHOULD NOT BE PLACED ON THESE FORWARD-LOOKING STATEMENTS, AS THERE CAN BE NO ASSURANCE THAT THE PLANS, INTENTIONS OR EXPECTATIONS UPON WHICH THEY ARE BASED WILL OCCUR. BY ITS NATURE, FORWARD-LOOKING INFORMATION INVOLVES NUMEROUS ASSUMPTIONS, KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, BOTH GENERAL AND SPECIFIC, THAT CONTRIBUTE TO THE POSSIBILITY THAT THE EXPECTATIONS, PREDICTIONS, FORECASTS, PROJECTIONS, CONCLUSIONS OR OTHER FORWARD-LOOKING STATEMENTS WILL NOT OCCUR OR PROVE ACCURATE, THAT ASSUMPTIONS MAY NOT BE CORRECT AND THAT OBJECTIVES, STRATEGIC GOALS AND PRIORITIES WILL NOT BE ACHIEVED. SUCH FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A SPEAK ONLY AS OF THE DATE OF THIS MD&A. THE FORWARD-LOOKING INFORMATION AND STATEMENTS CONTAINED IN THIS MD&A REFLECT SEVERAL MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS OF ELEMENT INCLUDING, WITHOUT LIMITATION: THE IMPACT OF COVID-19 PANDEMIC ON INDUSTRY AND MARKET CONDITIONS; THAT ELEMENT WILL CONDUCT ITS OPERATIONS IN A MANNER CONSISTENT WITH ITS EXPECTATIONS AND, WHERE APPLICABLE, CONSISTENT WITH PAST PRACTICE; ACCEPTABLE NEGOTIATIONS WITH THIRD PARTIES; THE CONTINUANCE OF EXISTING (AND IN CERTAIN CIRCUMSTANCES, THE IMPLEMENTATION OF PROPOSED) TAX AND REGULATORY REGIMES; CERTAIN COST ASSUMPTIONS; THE CONTINUED AVAILABILITY OF ADEQUATE DEBT AND/OR EQUITY FINANCING AND CASH FLOW TO FUND ITS CAPITAL AND OPERATING REQUIREMENTS AS NEEDED; THE EXTENT OF ITS ASSETS AND LIABILITIES; THE COMPANY'S NET INTEREST MARGIN; GROWTH IN LEASE RECEIVABLES AND SERVICE INCOME; RATE OF COST INFLATION; APPLICABLE FOREIGN EXCHANGE RATES AND APPLICABLE INCOME TAX RATES; THE COMPANY'S FUNDING MIX; THE RESET RATES FOR THE COMPANY'S**

**OUTSTANDING PREFERRED SHARES; AND IN THE CASE OF THE FORWARD LOOKING STATEMENTS REGARDING FINANCIAL OUTLOOK, THAT THE COMPANY WILL ACHIEVE THE EXPECTED BENEFITS, COSTS AND TIMING OF ELEMENT'S TRANSFORMATION. ELEMENT BELIEVES THE MATERIAL FACTORS, EXPECTATIONS AND ASSUMPTIONS REFLECTED IN THE FORWARD-LOOKING INFORMATION AND STATEMENTS ARE REASONABLE BUT NO ASSURANCE CAN BE GIVEN THAT THESE FACTORS, EXPECTATIONS AND ASSUMPTIONS WILL PROVE TO BE CORRECT.**

**THE COVID-19 PANDEMIC HAS CAST ADDITIONAL UNCERTAINTY ON ELEMENT'S INTERNAL EXPECTATIONS, ESTIMATES, PROJECTIONS, ASSUMPTIONS AND BELIEFS. THERE CAN BE NO ASSURANCE THAT THEY WILL CONTINUE TO BE VALID. GIVEN THE RAPID PACE OF CHANGE WITH RESPECT TO THE IMPACT OF THE COVID-19 PANDEMIC, IT IS PREMATURE TO MAKE FURTHER ASSUMPTIONS ABOUT THESE MATTERS. THE DURATION, EXTENT AND SEVERITY OF THE IMPACT THE COVID-19 PANDEMIC, INCLUDING MEASURES TO PREVENT ITS SPREAD, WILL HAVE ON ELEMENT'S BUSINESS IS HIGHLY UNCERTAIN AND DIFFICULT TO PREDICT AT THIS TIME.**

**FORWARD-LOOKING STATEMENTS AND INFORMATION IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO: THE IMPACT THAT THE COVID-19 PANDEMIC MAY HAVE ON ELEMENT'S FINANCIAL CONDITION, OPERATING RESULTS AND CASH FLOWS; ELEMENT'S REVENUES, EXPENSES, RUN-RATE AND OPERATIONS, FUTURE CASH FLOWS, FINANCIAL CONDITION, OPERATING PERFORMANCE, FINANCIAL RATIOS, PROJECTED ASSET BASE AND CAPITAL STRUCTURE; ELEMENT'S ABILITY TO RENEW OR REFINANCE CREDIT AND SECURITIZATION FACILITIES; ELEMENT'S TRANSFORMATION PLAN AND THE ANTICIPATED IMPACT AND BENEFITS THEREFROM (INCLUDING ANTICIPATED IMPACT ON CREDIT RATINGS); ELEMENT'S STRATEGY TO IMPROVE AND OPTIMIZE THE CLIENT EXPERIENCE AND CLIENT ACQUISITION AND RETENTION; ELEMENT'S EXPECTATIONS REGARDING SYNDICATION; ELEMENT'S ANTICIPATED CASH NEEDS, CAPITAL REQUIREMENTS AND ITS NEEDS FOR ADDITIONAL FINANCING; THE POTENTIAL IMPACT UNDER EXISTING CREDIT AND SECURITIZATION FACILITIES OF THE TRANSFORMATION PLAN IN WHOLE OR IN PART; ELEMENT'S FUTURE GROWTH PLANS; ELEMENT'S EXPECTATIONS REGARDING ITS ORIGINATION VOLUMES; ELEMENT'S ANTICIPATED DELINQUENCY RATES AND CREDIT LOSSES; ELEMENT'S ABILITY TO ATTRACT AND RETAIN PERSONNEL; ELEMENT'S PRESENT INTENTION TO PAY REGULAR DIVIDENDS ON ITS COMMON SHARES AND PREFERRED SHARES; ELEMENT'S TECHNOLOGY AND DATA, AND EXPECTED USES AND BENEFITS; ELEMENT'S COMPETITIVE POSITION AND ITS EXPECTATIONS REGARDING COMPETITION; ANTICIPATED TRENDS AND CHALLENGES IN ELEMENT'S BUSINESS AND THE MARKETS IN WHICH IT OPERATES; THE EVOLUTION OF ELEMENT'S BUSINESS AND THE FLEET MANAGEMENT INDUSTRY; ELEMENT'S GROWTH PROSPECTS AND THE OBJECTIVES, VISION AND STRATEGIES OF ELEMENT; ELEMENT'S OPERATIONS AND ABILITY TO DRIVE OPERATIONAL EFFICIENCIES; ELEMENT'S EXPECTATIONS REGARDING ITS ASSETS; ELEMENT'S BUSINESS STRATEGY; ELEMENT'S EXPECTATION REGARDING THE AVAILABILITY OF FUNDS FROM OPERATIONS, CASH FLOW GENERATION AND CAPITAL ALLOCATION; ELEMENT'S STRATEGIC ASSESSMENT OF CURRENT AND FUTURE ASSETS; ELEMENT'S BUSINESS OUTLOOK AND OTHER EXPECTATIONS REGARDING FINANCING OR OPERATING PERFORMANCE METRICS; THE EVOLUTION OF OPERATIONS AND THE DEVELOPMENT OF PERFORMANCE INDICATORS, AND OTHER FINANCIAL PERFORMANCE METRICS; THE FUTURE FINANCIAL REPORTING OF ELEMENT; ELEMENT'S FUTURE ASSETS AND THE DEMAND FOR ELEMENT'S SERVICES; ELEMENT'S BORROWING BASE; THE EXTENT, NATURE AND IMPACT OF ANY VALUE DRIVER TO CREATE, AND THE ABILITY TO GENERATE, PRE-TAX RUN-RATE OPERATING INCOME; ELEMENT'S ABILITY TO INCREASE TOTAL SHAREHOLDER RETURN; AND ELEMENT'S ABILITY TO PRE-FUND REDEMPTION OF ITS OUTSTANDING CONVERTIBLE DEBENTURES UPON THEIR MATURITY. THE READER IS CAUTIONED TO CONSIDER THESE AND OTHER FACTORS, UNCERTAINTIES AND POTENTIAL EVENTS CAREFULLY AND NOT TO PUT UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS. INFORMATION CONTAINED IN FORWARD-LOOKING STATEMENTS IS BASED UPON CERTAIN MATERIAL ASSUMPTIONS THAT WERE APPLIED IN DRAWING A CONCLUSION OR MAKING A FORECAST OR PROJECTION, INCLUDING MANAGEMENT'S PERCEPTIONS OF HISTORICAL TRENDS, CURRENT CONDITIONS AND EXPECTED FUTURE DEVELOPMENTS, AS WELL AS OTHER CONSIDERATIONS THAT ARE BELIEVED TO BE APPROPRIATE IN THE CIRCUMSTANCES. ALTHOUGH ELEMENT BELIEVES THAT THE EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, THERE CAN BE NO ASSURANCE THAT SUCH EXPECTATIONS WILL PROVE TO BE CORRECT. ELEMENT CANNOT GUARANTEE FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER ELEMENT NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE FORWARD-LOOKING STATEMENTS AND INFORMATION.**

**SOME OF THE RISKS AND OTHER FACTORS, SOME OF WHICH ARE BEYOND ELEMENT'S CONTROL, WHICH COULD CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS AND INFORMATION CONTAINED IN THIS MD&A, INCLUDE, BUT ARE NOT LIMITED**

**TO, THOSE SET FORTH UNDER THE HEADING "RISK MANAGEMENT" HEREIN AND UNDER THE HEADING "RISK FACTORS" IN ELEMENT'S ANNUAL INFORMATION FORM FOR THE YEAR ENDED DECEMBER 31, 2019. READERS ARE CAUTIONED THAT SUCH RISK FACTORS ARE NOT EXHAUSTIVE. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT. OTHER THAN AS SPECIFICALLY REQUIRED BY APPLICABLE CANADIAN LAW, ELEMENT UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH SUCH STATEMENT IS MADE, OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR RESULTS, OR OTHERWISE.**

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# Company Overview

Element Fleet Management Corp. is the largest pure-play commercial vehicle fleet manager in the world. Our business is exclusively focused on providing services and financing solutions for commercial vehicle fleets, and we are the market leader in the geographies in which we operate: the U.S., Canada, Mexico, and Australia and New Zealand. Element has approximately $17.0 billion in assets under management, 1 million vehicles under management and over 5,500 corporate and government clients.

The fleet management industry took shape nearly 70 years ago and has consistently demonstrated stability and resilience across the business cycle. The industry is characterized by high barriers to entry, rational competition and long-term, “sticky” client relationships.

Element specializes in large and often complex commercial fleets. We benefit from a blue-chip client base of strong counterparty credits, significant advantages of scale and expertise, and the financial strength to support the achievement of our and our clients’ business objectives. Element's mission is to ensure that our clients’ vehicles and their drivers are safer, smarter and more productive.

Fleet vehicles are essential to our clients’ ability to generate and sustain revenue. They also have significant associated costs. Element’s value proposition is the material reduction of our clients’ total cost of vehicle ownership and operation, and the elimination of related administrative burden. We use Element’s investment-grade balance sheet, ready access to cost-efficient capital and broad suite of fleet services to deliver this value. Element’s service offerings span the fleet vehicle lifecycle from acquisition and financing to management, maintenance, repair and remarketing.

In 2018, we completed an end-to-end assessment of Element’s business that resulted in a strategic plan to solidify the Company’s core operating platform and client relationships, strengthen and deleverage its balance sheet and divest of all non-core assets. Further, we knew that the successful execution of this three-prong strategy would position us well to pivot to organic growth in 2021 and beyond.

We will complete the transformation of Element by the end of 2020, having effected hundreds of changes to the organization resulting in a more consistent, superior client experience; greater operational efficiency and stability; an investment-grade balance sheet and maturing capital structure; diversified funding sources, including approximately $5 billion of committed, undrawn liquidity; and meaningfully improved profitability.

Transforming Element over the last 22 months has given our people the skills and confidence to deal with large, complicated and deeply nuanced business problems. These capabilities have been on full display in our swift and successful adaptation to operating through the COVID-19 pandemic. We continue to stay the strategic course we have set for 2020, 2021 and beyond despite the practical and economic consequences of COVID-19.

The organization’s consistent overachievement on our transformation work allowed us to begin pivoting Element to growth ahead of schedule. Having performed comprehensive studies of our addressable markets in North America and Australia / New Zealand, we have developed an organic growth strategy based on which we believe Element can improve its net revenue by 4-6% annually in normal market conditions – through (i) holding market share by achieving best-in-class client retention; (ii) improving salesforce effectiveness (iii) better managing client profitability; (iv) converting self-managed fleets in targeted market segments into Element clients using our strong financial position and a compelling value proposition; and (v) leveraging our market leadership in Mexico and Australia / New Zealand. We will also pursue additional, Armada[1]-like “mega fleet” opportunities, the success of which could drive results above 4-6% annual net revenue growth.

In the second half of 2020, we will begin executing our enhanced growth strategy in earnest (6 months earlier than originally planned). We are ready to do so, and believe the known and likely economic consequences of the COVID-19 pandemic make Element’s value proposition to new and existing clients even more compelling. We look forward to sharing our progress over the coming quarters.

[1] “Armada” is the term Element uses to reference one client in particular that the Company does not name due to the client's desire for confidentiality.

# Change in Reporting Presentation - Elimination of "Non Core"

Following the sale of 19th Capital on May 1, 2020, Element's operations are exclusively focused on providing services and financing solutions for commercial vehicle fleets, and "Non Core" segment reporting is no longer necessary.

Commencing in Q2 2020, Element's results of operations and financial position are and will continue to be presented as a single business and comparative periods will reflect the same.

We will continue to break out certain information by geographic location with no change.

# Regarding COVID-19

The COVID-19 pandemic continues to disrupt ways of life and economies around the world, including in Element's operating geographies – the U.S., Canada, Mexico, Australia and New Zealand – albeit to varying extents.

We have now accumulated 20 weeks of data, learnings and insights on how Element's clients are being impacted by the pandemic and resulting economy; and, in turn, how our own business is being impacted.

We include as much relevant COVID-19-related information as possible throughout this document and our other Q2 2020 disclosures – including our Supplementary Information document available on the Company's website – in an effort to help the reader evaluate Element's performance in the period.

As we expected and communicated in Q1 2020, Element has not gone unscathed by the circumstances created by COVID-19. The impacts are evident in our Q2 balanced scorecard, business and financial results below and we attempt to provide insight in our commentary thereon.

Overall, our largely investment-grade client base – diversified across geographies and industries – and Element's resilient business model, including a number of innate defensive characteristics, underpinned Q2 performance and results that met and, in some cases, exceeded our expectations.

# Financial Highlights

## Select Q2 2020 Results

| Net revenue | Servicing income, net / Net revenue | After-tax adjusted operating income / share | Free cash flow / share |
|---|---|---|---|
| $ 226 M | 51 % | $ 0.19 | $ 0.25 |

| Profitability improvements actioned to date | Assets under management | Tangible leverage ratio | Return on equity |
|---|---|---|---|
| $ 166 M | $ 17.0 B | 6.80 | 10.2 % |

## Income Summary

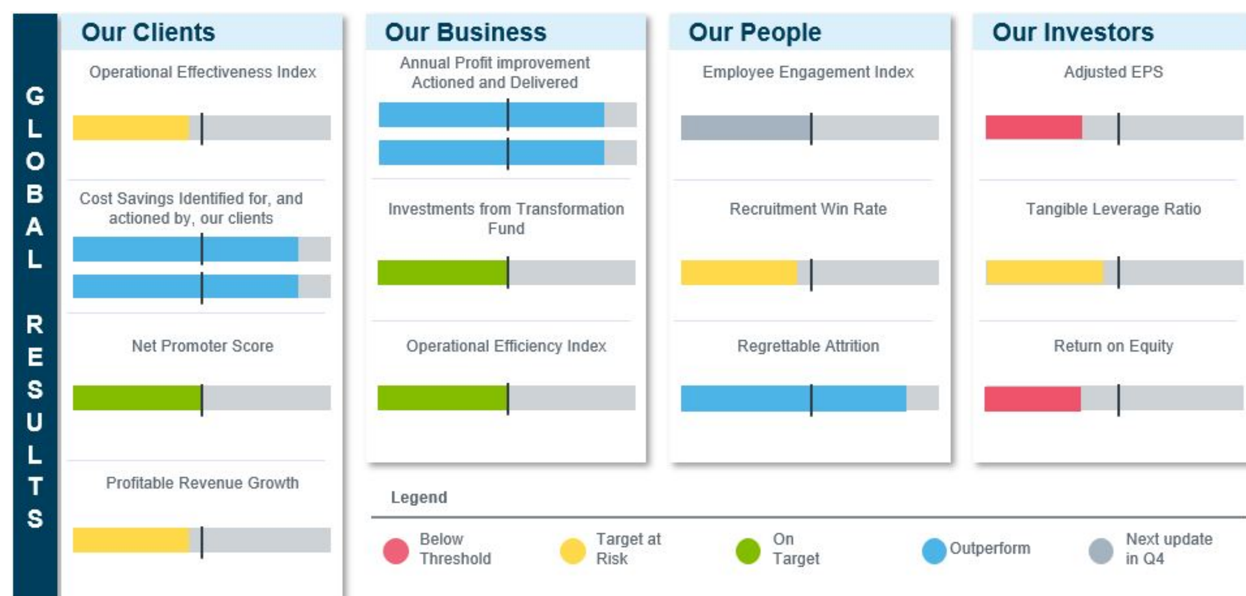
| *(in $000's for stated values, except per share amounts)* | | **For the three-month period ended June 30, 2020** |
|---|---|---|
| Net financing revenue | **$** | **100,655** |
| Servicing income, net | | **114,515** |
| Syndication revenue, net | | **10,333** |
| **Net revenue** | | **225,503** |
| **Adjusted operating expenses** | | **114,359** |
| **Adjusted operating income** | | **111,144** |
| After-tax adjusted operating income per share [basic] | **$** | **0.19** |

# Balanced Scorecard

Element has implemented a balanced scorecard strategy and performance management system, which forges tighter alignment and provides greater focus throughout the Company, resulting in the rapid advancement of our strategic objectives. The balanced scorecard frames the business in four dimensions: Element's clients, business, people and investors.

Element's global balanced scorecard distills our strategy on to a single page. Its broad dissemination throughout the organization allows all our employees to see our progress through clearly defined metrics. We raised the bar for Element’s performance as measured by our balanced scorecard in 2020, with many metric targets well above 2019 results.

Element's global balanced scorecard results at June 30, 2020 were as follows:




Element delivered results at or above target on most metrics. Our Operational Effectiveness Index, Profitable Revenue Growth, Adjusted EPS and Return on Equity were adversely impacted by COVID-19. We discuss those impacts of COVID-19 on our business in Q2 throughout this document.

Despite the challenging circumstances created by the pandemic, our people continue to deliver a consistent, superior experience for our clients, helping them manage their businesses through the economic distress wrought by COVID-19. In the first half of 2020, we identified over $1 billion of cost saving opportunities for our clients, who have acted on nearly one third of that value already. As indicated by our Net Promoter Score, our clients continue to be appreciative of the service experience our people deliver.

A degree of decline in client activity in Q2 afforded us operational resource capacity to accelerate our transformation program. We actioned an incremental $20 million of run-rate profitability improvements and delivered $30 million of operating income enhancement in Q2. Having actioned $166 million in transformation initiatives since October 2018, we are fast approaching the successful completion of our program and achievement of our goal of $180 million in pre-tax, annual run-rate operating income improvements actioned by the end of 2020. To accomplish this, we will have made approximately $180 million of one-time investments in our business.

Our people – who deliver that consistent, superior experience for our clients – are our greatest competitive differentiator. Our employee health and well-being is the number one priority as we consider a gradual return to working at Element offices over the coming months. Employee retention continues to be strong through the first half of 2020, and we are winning when we recruit talent to fuel our business areas of growth. We also continue to move forward with the workforce changes planned as part of our transformation program.

While 2020 will remain a challenging year, the stability and resilience of our business coupled with the engagement and resourcefulness of our people will allow us to continue to help and serve our clients. Element will emerge from the pandemic the best-prepared company in our industry to capitalize on the opportunities we believe will ensue.

# Achievements and Initiatives in the Period

## Our Clients

### Achievements

Deeper client relationships

We continue to provide our clients full support as they address the challenges and opportunities COVID-19 presents to their businesses. These interactions are welcome and valuable occasions to deepen our relationships with our clients.

For example, our strategic consulting services team has been as busy as ever identifying fleet cost savings opportunities based on clients' specific business circumstances (as impacted by COVID-19). In some cases, we are identifying opportunities for clients to better manage their balance sheet as well. In turn, clients are eager to act on our recommendations to reduce their total cost of fleet ownership and operation – especially in the current economic environment. As reported on our global balanced scorecard, Element identified over $1 billion in cost savings opportunities for clients in the first half of 2020 - matching our accomplishment for the entirety of 2019 - with clients having acted on nearly one third of those opportunities already.

The operational effectiveness index on our global balanced scorecard measures the extent to which Element is delivering the consistent, superior client experience we strive for. Metrics in the index that measure operational effectiveness independent of third party contributions are consistently scoring above target. Given that there are also metrics in the index that measure "wing-to-wing" processes impacting the client experience, and given the various negative effects of COVID-19 on our supplier networks that deliver portions of the wing-to-wing experience, the index score is slightly below target year-to-date.

We also receive simple scores from clients after every interaction we have with them. These scores are independent of our balanced scorecard and continue to indicate that our service delivery is strong and client satisfaction is high. Separately, it is gratifying to receive consistent unsolicited positive feedback from clients regarding the service experience our people are upholding throughout the pandemic. Our global Net Promoter Score, which is a weighted average of trailing-four-quarter Net Promoter Scores in each of our geographies, grew from 19 to 20 in the quarter.

In short, our people are working exceptionally hard to deepen our client relationships by managing all the circumstances within Element's control while proactively monitoring and communicating with clients regarding circumstances that are out of our hands.

New and retained clients

We won new business - including self-managed fleets - and renewed and retained large existing clients in the second quarter.

*U.S. & Canada*

- We now manage a U.S.-headquartered Top 10 global logistics firm's newly-outsourced fleet. Element will finance and service the client's 800 previously self-managed units, with the potential to earn responsibility for the client's additional 3,000 units that are currently still being self-managed.
- A Pacific Northwest telecommunications business has now entrusted Element with the management of their 1,235-unit fleet. We provide financing and a broad suite of services to this client in support of their growth extending fiber to millions of customers.
- Our superior client experience standards and breadth of servicing capabilities were key to our taking market share from a competitor in winning the Canadian business of a global cable,

transmission and substation servicer. Element will provide financing and a broad suite of services for 750 units with the opportunity to displace the client's current FMC in the U.S. as well.

- We renewed our lease and services agreements with one of our largest North American clients – an investment-grade company in the fabricated goods space with over 22,000 units managed by Element – for another 3 years. The go-forward arrangement is on terms that will improve the profitability of this client relationship.

*Mexico*

- Element is now part of the expansion plans of one of the largest delivery and logistic services companies in Mexico. Our new, investment-grade client will grow their 2,300-unit fleet to support increased operations for over 140,000 national and international customers serving the growing e-commerce industry.
- We are a new strategic partner of an investment-grade Mexican waste management company with a +30-year history and operations throughout Central America. Element enabled this client's acquisition of over 100 new specialty trash collection vehicles and have taken over management of the company's 150-unit sales and executive fleet (previously self-managed). We will be renewing all 3,000 fleet units across the business over the next 4 years.
- A world leader in real estate services has entrusted Element in Mexico with leasing and service of their sales and executive fleet, with potential expansion of responsibility to over 2,000 units in total. Strong value-add and our focus on client service won this investment-grade business away from a competitor. We are already working with the client on a project that encompasses over 1,800 units.
- One of our existing clients in Mexico was acquired by a global chemical firm whose fleet was already managed by an Element competitor in the region. Not only did we retain the existing client's business post-merger; we were able to win the business of the acquirer – an account representing 1,100 vehicles in Mexico and approximately 4,000 service units.

*Australia & New Zealand*

- Custom Fleet[2] is the manager of Australian supermarket chain Coles' newly-outsourced Online fleet. We won a competitive RFP process for the nearly 1,000-unit opportunity because of our asset class expertise, the superior client experience we deliver (including bespoke reporting capabilities), our third-party partnerships enabling wing-to-wing client service and the funding certainty given Element's balance sheet and liquidity. Coles is an investment-grade client listed on the Australian Stock Exchange.
- We have entered into an exclusivity agreement with Schneider Electric, an investment-grade global energy management firm awarding us sole supply of their fleet across Australia and New Zealand.
- Custom Fleet in New Zealand has won the contract to manage 700 units on behalf of the Department on Conservation, extending our successful partnership with the New Zealand government and further demonstrating our position as a key player in public sector fleet management and service.

## Resilient servicing income

Q2 servicing income decreased just 8% year-over-year and 9% quarter-over-quarter.

We view this modest decline amid a global pandemic as an achievement in the quarter and a testament to the resilience of this revenue stream. There are four overarching reasons for its durability:

- Our clients represent a broad spectrum of enterprise- and mid-market-scale businesses, a large number of which continue to operate despite COVID-19. As section 8.1 of our Supplementary Information document depicts, Element's U.S. and Canadian clients' vehicle usage declined

[2] Element does business as Custom Fleet in Australia and New Zealand.

notably less by some measures than average vehicle usage in the U.S. from mid-March to the end of June. Our clients include frontline service providers and many are essential services. Some clients' businesses are operating at less than full capacity amid COVID-19 and other clients' activity levels have increased dramatically. The latter category includes companies such as medical services businesses, telecommunication companies and businesses with online retail presence.

- All the vehicles we lease are essential to our clients' ability to generate and sustain revenue, so the vast majority have been active in some capacity during the pandemic. However, we have seen less decline in the activity levels of service fleet vehicles (which make up approximately 80% of our leases) than we have seen in sales fleet vehicles (which make up the other approximately 20% of our leases). Service fleet vehicles are transporting service personnel and equipment to job sites, ferrying assets between locations and delivering products to consumers sheltering-in-place.

- Not only have service fleet vehicles been more active than sales fleet vehicles amid COVID-19, but service fleets tend to consume more Element services than sales fleets; for instance, approximately 4.5x the fuel, 5x the maintenance and 2.5x the accident services (on average) over any given period.

  Taking the month of April 2020 as an example - when Element's U.S. and Canadian clients' vehicle usage was at its lowest (see section 8.1 of our Supplementary Information document) - fuel, maintenance and accident services usage by such clients declined from average levels by materially more among sales fleet than service fleet vehicles:

| Element services consumption declines in the month of April 2020 | Fuel | Maintenance | Accident |
|---|---|---|---|
| Sales fleet vehicles | 68% | 58% | 60% |
| Service fleet vehicles | 28% | 32% | 49% |

  This data - combined with the fact that service fleet vehicles tend to consume more Element services on average than sales fleet vehicles regardless of COVID-19 - illustrates the strength of service fleet vehicles' contribution to our servicing income. And service fleets make up approximately 80% of our leases.

- Part of our servicing income is derived from client subscriptions for services, which make predictable contributions to quarterly revenue independent of client vehicle activity.

## Initiatives

Accelerate the pivot to growth

We used the first half of 2020 to accelerate our pivot to growth. As previously disclosed, last quarter we appointed David Madrigal – the architect of the high-performing Element Mexico team – as our Chief Commercial Officer in the U.S. and Canada. We also reorganized our Commercial group into regional growth units and a team dedicated to account management and client retention.

This quarter in the U.S. and Canada we established new compensation structures designed to incent profitable revenue growth, and invested in strengthening our marketing function with a full suite of technology to help our salesforce identify, qualify and ultimately secure new business opportunities.

In Australia and New Zealand, Custom Fleet has completed a similar set of initiatives designed to give them the necessary tools to take market share and win new business across our key areas of focus in the region, including self-managed and government fleets.

In Mexico, we continue to build on our team's success converting self-managed fleets into Element clients. While our percentage growth rates will be challenging to maintain given recent years' accomplishments increasing our base, we expect continued strong absolute growth in dollar terms. We have invested in adding and training more talent in Mexico and expect that investment to pay off beginning in 2021 as these new hires gain traction.

In short, we have accelerated the development of our Commercial teams' capabilities such that they will be prepared to present our value proposition to prospective clients emerging from the initial fog of the COVID-19 business environment.

# Our Business

## Achievements

Accelerated transformation

The Q2 slowdown in client activity as a result of COVID-19 freed-up certain operational resources, allowing us to successfully accelerate our transformation program. Transformation accomplishments in the first half of 2020 position us extremely well to meet or exceed our transformation targets in the second half. One-time investments will support transformation progress throughout 2020 but these investments will not continue in 2021.

Element outperformed its transformation-based profit improvement targets in Q2 having actioned a cumulative $166 million of annual run-rate, pre-tax operating income benefits at June 30, 2020, which we expect to enhance Element's operating income by approximately $119 million in 2020. Transformation initiatives delivered $30 million of profit enhancement in the quarter. We made $19 million of incremental one-time investments in our business in Q2 as part of transformation.

The anticipated success of our growth strategy should make our actioned transformation initiatives even more profitable in future years, because the pre-tax annual run-rate valuations of many improvements are based on existing business volumes.

## Initiatives

Dynamic liquidity management

Motivated by the economic consequences of COVID-19, liquidity management has become a priority for most every business in the world. Notwithstanding Element's dependable operating cash flows and approximately $5 billion of committed, undrawn capital at quarter-end, we are working to sustainably enhance our dynamic liquidity management capabilities, including data analysis capacity and forecasting.

Continuous improvement

With the end of our transformation program in sight, we have begun to reflect on the learnings our business has accumulated since the fall of 2018. Our preliminary thinking is that Element has established a new strand of organizational DNA in the ongoing, active pursuit of ways to deliver an ever more consistent and superior fleet management client experience. We are committed to harnessing the client-centricity, critical rigor and momentum created by our transformation, and carrying that through and beyond 2020. As an early example of this commitment, we stood up a Continuous Improvement Group at Element in the quarter and began to make related skills and mindset training programs available to all employees.

# Our People

## Achievements

Staying well

Following our people's swift adaptation to working remotely at the onset of the pandemic, we continue to prioritize their health and well-being, while also considering how we can apply the learnings from this extraordinary period to find new ways of working together and operating our business.

We currently have 98% of our people working safely from home, and protocols in place to ensure those Element employees who continue to work from our offices can do so safely.

A recent employee well-being survey confirmed that most of our people enjoy working from home and are benefiting from the wellness resources we have introduced, including access to professional services, meditation and exercise classes. These programs have been augmented by working norms instituted to help bring balance to people's days: core meeting hours, and designated focused work periods during the week.

Despite the disruptions presented by COVID-19, our people are on track to complete the transformation of our business by upgrading our operating platform, strengthening and de-leveraging our investment-grade balance sheet, carefully managing our funding facilities and operating liquidity, and pivoting our business toward profitable revenue growth.

### Better systems

As part of transformation, we committed to delivering new HR technologies that would build our capabilities for the future and deliver key benefits including increased automation of HR systems, enhanced transparency on key HR metrics in alignment with our balanced scorecard and a more consistent and superior employee experience.

In support, we launched the first in a series of digital tools – ADP – which will allow our people and managers to better request, track and analyze data related to paid time off, accruals, requests and approvals, as well as critical payroll functions like direct deposit, payroll taxes, and payroll processing.

As we advance through the HR-related transformation initiatives, we are creating an increasingly consistent, intuitive and easy digital employee experience for our people ultimately enabling them to do the same for our clients.

### Voluntary exit program

As we near completion of our transformation, we continue to anticipate some of the work at Element will change, requiring us to create new roles while others phase out over time. In order to seize this moment to organize work differently, Element offered a voluntary exit program in the quarter to employees with 20+ years of tenure. This program was designed to have the dual benefit of putting control in the hands of tenured employees to take an enhanced severance package while creating space for Element to build for the future by promoting or hiring new talent. Our program had a satisfactory 15% applicant rate by eligible employees, which will result in participants departing Element gradually through the rest of 2020 as the transformation moves closer to completion.

## Initiatives

### Resumption

The resilience of our business coupled with the adaptations to how we work enable Element to set our own pace on an eventual return to the office. To that end, we have established a cross functional task force to lead our resumption efforts with a focus on business requirements and employee preferences. While we are grounded by a focus on health and safety, we will apply the tenacity and innovation honed through our transformation to make the most of every opportunity in this changing environment. We have communicated to our employees that Element will start a gradual return no earlier than September 2020, but reserve the right to adjust our approach at any time as the pandemic evolves. The only exception is Custom Fleet which has begun a phased return to the office this July.

### Diversity and inclusion

Perhaps the most pivotal moment for our people at Element this quarter came with the social upheaval stemming from the intense focus on persistent and systemic racism in our society. Whether we watched tragic events unfold on social media or experienced them directly in our communities as protests spread across the globe, we have all learned more about the profound challenges experienced by our Black colleagues on a daily basis. While our office in Hopkins, Minnesota remained unaffected, our African American employee resource group congregated online to connect over the unfolding crises.

These painful events have catalyzed Element to significantly increase the pace of our own diversity and inclusion efforts. In addition to making a public commitment to lead by example in this regard, we have taken concrete action by initiating a comprehensive and consultative diversity and inclusion strategy. We have also begun the search for an experienced diversity and inclusion leader to join Element reporting directly to our Chief People Officer. We look forward to the dialogue with our people on this topic and to making swift progress on what should be a pillar of our employee culture.

## Our Investors

### Achievements

Stable collections and credit performance

We monitored fluctuations in our credit risk exposure and delinquent client receivables daily throughout the quarter and our global portfolio continues to perform in line with expectations.

Our aggregate reported delinquencies at quarter-end decreased by $12.5 million or 26% quarter-over-quarter - from $47.8 million to $35.3 million - and we expect improvements to continue as we manage delinquencies back to pre-COVID-19 levels.

Reported delinquency values are Element's aggregate net investment in finance receivables (i.e. finance lease receivables and finance loan receivables) attributable to delinquent client accounts – and not the actual amounts in respect of which clients are delinquent. The actual net finance receivable amounts in respect of which clients were delinquent at June 30, 2020 totaled $2.9 million, which is in line with pre-COVID-19 levels. We provide historical context in section 9.2 of our Supplementary Information document, available on the Company's website.

Our impaired receivables balance stood at $112 million at quarter-end. As communicated last quarter, we expected three clients on our watchlist to enter bankruptcy in the second quarter, which they did. Having worked closely with two of these clients (comprising $42 million of the $47 million in new impaired receivables) leading up to and throughout their ongoing restructuring proceedings, we do not expect to incur any credit losses on these accounts. Moreover, and as reflected in the $32 million reduction in impaired receivables during the second quarter (arising from repayments and asset sales), we expect negligible credit losses in total from all currently impaired accounts. We provide further insight into Element's impaired receivables in section 10.0 of our Supplementary Information document.

U.S. bond issued

As previously disclosed, we took the first step to becoming a programmatic issuer in the U.S. debt capital markets with our inaugural issuance of $400 million U.S. dollar 5-year 3.85% senior unsecured investment-grade notes in Q2. The bond issue is in keeping with our strategic priority to strengthen Element's investment-grade balance sheet by, among other things, maturing the Company's capital structure and diversifying access to cost-efficient sources of funding.

Convertible debentures retired

The proceeds of the inaugural bond issuance were used, together with cash on hand, to retire Element's $567 million of 4.25% convertible debentures scheduled to mature June 30, 2020. With this retirement, we have successfully eliminated nearly $750 million of convertible debentures from Element's capital structure since March 2019, leaving only $172.5 million remaining.

We collapsed the $560 million committed credit facility established earlier in the quarter to retire the June 30, 2020 convertible debentures in the event market conditions had not been attractive for our inaugural U.S. bond offering.

Syndication market growth

The syndication market has remained open to Element throughout this year. We continued to enjoy robust demand for our product in the quarter, syndicating $759 million of assets and generating $10.3 million of

revenue. The quarter-over-quarter decrease in syndication revenue is a function of (i) the 9% decrease in volume of assets syndicated, (ii) the significant tightening of prices throughout the quarter (higher hurdle rates) - including on leases with high-grade credit counterparties, such as Armada (whose assets we need to syndicate) - (iii) one-time costs incurred to support the re-amortization of a large client's previously-syndicated assets, partially offset by resulting benefits to net financing revenue and (iv) the particular mix of assets syndicated in the quarter.

Our priority remains to maintain a significant presence in the syndication market and further increase demand for our assets. We made a small number of talented additions to our syndication team in the quarter who are already contributing to expanding our universe of prospective investors. We continued to transact with new investors in Q2, bringing our total syndication volume with new investors to $143 million in the first half of 2020. Additional prospective buyers continue to express interest in our product.

### Balance sheet de-leveraging

Profitability, free cash flow and syndication all contribute to de-leveraging Element’s balance sheet. In Q2, lower originations and lower client use of vehicle services also made modest contributions. We achieved tangible leverage of 6.8x at quarter-end – a decrease of 0.65 from Q1 2020 – largely driven by reduced debt levels, with light tailwind from a strengthening Canadian dollar against the U.S. dollar.

Excluding the impact of the Company’s non-recourse warehouse credit facility (which exclusively funds pre-syndication assets for Armada), our tangible leverage at June 30, 2020 would have been 6.49x. We continue targeting tangible leverage below 6.0x by the end of 2020.

### Australian securitization capacity

We renewed our $1 billion Australian dollar securitization facility in the quarter, ensuring Custom Fleet has continued ready access to cost-efficient capital to support its growth strategy.

### Sold 19th Capital

As previously disclosed, Element sold the assets of 19$^{th}$ Capital and settled third party debt at a discount in the quarter. The net impact of the asset sale and settlement of debt is an after-tax loss of $10.3 million (including closing and severance costs) recorded in the Company's interim condensed consolidated financial statements for Q2 2020.

### ABS term note issued

Subsequent to quarter-end, and as previously disclosed, Element securitized US $750 million of finance receivables under our Chesapeake vehicle management asset-backed debt facility. The term note was the first U.S. fleet ABS issuance since the widespread arrival of COVID-19 in North America, demonstrating our ready access to cost-efficient capital. We used the proceeds to pay down variable funding notes outstanding, increasing Element’s contractually committed, undrawn liquidity to $5.7 billion.

## Initiatives

Capital allocation

With line of sight to

- the conclusion of our transformation program, including the one-time investments we have been making in support of same,
- the achievement of our sub-6.0x tangible leverage target,
- growth in revenue as we pivot the Company to growth,
- growth in operating income as we demonstrate the scalability of our transformed operating platform, and
- growth in free cash flow,

we have prioritized the evolution of our thinking and dialogue with our Board regarding excess capital allocation. We anticipate being in a position to share the Board's preliminary capital allocation strategy in the second half of this year.

# Selected Financial Information and Ratios

| (in $000's for stated values, except per share amounts) | As at and for the three-month periods ended | | | As at and for the six-month periods ended | |
|---|---|---|---|---|---|
| | **June 30, 2020** | March 31, 2020 | June 30, 2019 | **June 30, 2020** | June 30, 2019 |
| | **$** | $ | $ | **$** | $ |
| Net revenue | **225,503** | 247,239 | 249,570 | **472,742** | 491,797 |
| Net income | **58,594** | 79,358 | 64,061 | **137,952** | 144,534 |
| Total assets | **16,883,105** | 18,220,355 | 17,772,477 | **16,883,105** | 17,772,477 |
| Total debt | **11,910,711** | 13,115,461 | 12,912,122 | **11,910,711** | 12,912,122 |
| After tax adjusted operating income[1] | **93,361** | 105,397 | 101,411 | **198,758** | 202,023 |
| Earnings per share | | | | | |
| Basic | **0.11** | 0.16 | 0.12 | **0.27** | 0.28 |
| Diluted | **0.11** | 0.16 | 0.12 | **0.26** | 0.28 |
| After tax adjusted operating income per share[1] | | | | | |
| Basic | **0.19** | 0.22 | 0.21 | **0.40** | 0.41 |
| Pro forma Diluted | **0.19** | 0.21 | 0.22 | **0.40** | 0.43 |
| Dividends declared, per share | | | | | |
| Common share | **0.045000** | 0.045000 | 0.045000 | **0.090000** | 0.090000 |
| Preferred Shares, Series A | **0.433313** | 0.433313 | 0.433313 | **0.866626** | 0.866620 |
| Preferred Shares, Series C | **0.388130** | 0.388130 | 0.406250 | **0.776260** | 0.812500 |
| Preferred Shares, Series E | **0.368938** | 0.368938 | 0.400000 | **0.737876** | 0.800000 |
| Preferred Shares, Series G | **0.406250** | 0.406250 | 0.406250 | **0.812500** | 0.812500 |
| Preferred Shares, Series I | **0.359375** | 0.359375 | 0.359375 | **0.718750** | 0.718750 |

*(1) For additional information, see "Description of Non-IFRS Measures" section.*

# Results of Operations

| (in $000's for stated values, except per share amounts) | For the three-month periods ended | | | For the six-month periods ended | |
|---|---|---|---|---|---|
| | **June 30, 2020** | March 31, 2020 | June 30, 2019 | **June 30, 2020** | June 30, 2019 |
| | **$** | $ | $ | **$** | $ |
| **Net revenue** | | | | | |
| Net interest income and rental revenue | **189,334** | 200,317 | 232,282 | **389,651** | 468,298 |
| Interest expense | **88,679** | 105,012 | 128,737 | **193,691** | 257,866 |
| Net financing revenue | **100,655** | 95,305 | 103,545 | **195,960** | 210,432 |
| Servicing income, net | **114,515** | 125,847 | 124,282 | **240,362** | 242,410 |
| Syndication revenue, net | **10,333** | 26,087 | 21,743 | **36,420** | 38,955 |
| **Net revenue** | **225,503** | 247,239 | 249,570 | **472,742** | 491,797 |
| **Operating expenses** | | | | | |
| Salaries, wages and benefits | **74,859** | 75,470 | 84,532 | **150,329** | 164,647 |
| General and administrative expenses | **28,590** | 31,791 | 28,592 | **60,381** | 58,390 |
| Depreciation and amortization | **10,910** | 10,656 | 10,470 | **21,566** | 20,830 |
| **Adjusted operating expenses** | **114,359** | 117,917 | 123,594 | **232,276** | 243,867 |
| Amortization of convertible debenture discount | **2,003** | 2,555 | 4,492 | **4,558** | 8,147 |
| Share-based compensation | **4,427** | 5,437 | 5,410 | **9,864** | 10,580 |
| **Total operating expenses** | **120,789** | 125,909 | 133,496 | **246,698** | 262,594 |
| **Disposition of 19th Capital** | | | | | |
| Gain on settlement of debt | **38,580** | — | — | **38,580** | — |
| Loss on sale of assets | **(52,442)** | — | — | **(52,442)** | — |
| **Net loss on disposition** | **(13,862)** | — | — | **(13,862)** | — |
| **Other expenses** | | | | | |
| Amortization of intangible assets from acquisition | **9,660** | 10,223 | 9,112 | **19,883** | 18,288 |
| Restructuring and transformation costs | **18,663** | 14,995 | 21,949 | **33,658** | 28,687 |
| (Gain) loss on investments | **(3)** | 57 | (238) | **54** | 1,092 |
| **Total other expenses** | **28,320** | 25,275 | 30,823 | **53,595** | 48,067 |
| **Net income before taxes** | **62,532** | 96,055 | 85,251 | **158,587** | 181,136 |
| Income tax expense | **3,938** | 16,697 | 21,190 | **20,635** | 36,602 |
| **Net income for the period** | **58,594** | 79,358 | 64,061 | **137,952** | 144,534 |
| Earnings per share [basic] | **0.11** | 0.16 | 0.12 | **0.27** | 0.28 |
| Weighted average number of shares outstanding [basic] | **437,849** | 437,291 | 434,694 | **437,570** | 434,158 |

Element earned net income for the quarter of $58.6 million or $0.11 per share; 9% or $5.5 million less than Q2 2019 net income of $64.1 million (or $0.12 per share) and 26% or $20.8 million less than Q1 2020 net income of $79.4 million (or $0.16 per share). Net income earned in the six months ended June 30, 2020 was $138.0 million or $0.27 per share; 5% or $6.6 million less than the $144.5 million of net income (or $0.28 per share) earned in the six months ended June 30, 2019.

Element sold the assets of 19th Capital and settled third party debt at a discount in the quarter. The net impact of the asset sale and settlement of debt is a pre-tax loss of $13.9 million (including closing and severance costs) recorded in the quarter.

In support of Element's transformation program, we made $18.7 million of one-time investments in our business in the quarter and $33.7 million in the six months ended June 30, 2020. These costs consist primarily of professional fees and severance-related expenditures.

Element calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. IAS 34 requires this annual tax rate to be reviewed each quarter and applied to the profits earned to date.

The effective income tax rate was 6.3% and 13.0% for the three- and six-months ended June 30, 2020, respectively (three- and six-months ended June 30, 2019 - 24.9% and 20.2%, respectively). The year to

date effective tax rate is lower than prior years reflecting year-over-year variances in pre-tax net income and other tax related adjustments.

## Adjusted Operating Results

| (in $000's for stated values, except per share amounts) | For the three-month periods ended | | | For the six-month periods ended | |
|---|---|---|---|---|---|
| | **June 30, 2020** | March 31, 2020 | June 30, 2019 | **June 30, 2020** | June 30, 2019 |
| | **$** | $ | $ | **$** | $ |
| Net financing revenue | **100,655** | 95,305 | 103,545 | **195,960** | 210,432 |
| Servicing income, net | **114,515** | 125,847 | 124,282 | **240,362** | 242,410 |
| Syndication revenue, net | **10,333** | 26,087 | 21,743 | **36,420** | 38,955 |
| **Net revenue** | **225,503** | 247,239 | 249,570 | **472,742** | 491,797 |
| Salaries, wages and benefits | **74,859** | 75,470 | 84,532 | **150,329** | 164,647 |
| General and administrative expenses | **28,590** | 31,791 | 28,592 | **60,381** | 58,390 |
| Depreciation and amortization | **10,910** | 10,656 | 10,470 | **21,566** | 20,830 |
| **Adjusted operating expenses (1)** | **114,359** | 117,917 | 123,594 | **232,276** | 243,867 |
| **Adjusted operating income (1)** | **111,144** | 129,322 | 125,976 | **240,466** | 247,930 |
| Provision for taxes applicable to adjusted operating income | **17,783** | 23,925 | 24,565 | **41,708** | 45,907 |
| Cumulative preferred share dividends | **10,906** | 10,906 | 11,164 | **21,812** | 22,328 |
| **After-tax adjusted operating income attributable to common shareholders (1)** | **82,455** | 94,491 | 90,247 | **176,946** | 179,695 |
| Weighted average number of shares outstanding [basic] | **437,849** | 437,291 | 434,694 | **437,570** | 434,158 |
| After-tax adjusted operating income per share (1) [basic] | **0.19** | 0.22 | 0.21 | **0.40** | 0.41 |
| **Originations** | **1,306,804** | 2,030,988 | 1,806,515 | **3,337,792** | 3,516,364 |
| **End-of-period assets under management (1)** | **17,049,689** | 17,780,139 | 15,516,475 | **17,049,689** | 15,516,475 |

*(1) For additional information, see "Description of Non-IFRS Measures" section.*

Element's adjusted operating income ("AOI") in Q2 was $111.1 million, equivalent to $0.19 on a per share basis. This represents a $0.02 per share decline from Q2 2019 AOI of $126.0 million or $0.21 per share; and a $0.03 per share decline from Q1 2020 AOI of $129.3 million or $0.22 per share.

Net financing revenue contributed approximately the same amount of AOI per share in Q2 2020 as it did in Q2 2019 while servicing income and syndication revenue were down approximately $0.02 each on the same comparative basis. We address the reasons for each of these declines in the commentary below. Adjusted operating expenses in Q2 contributed approximately $0.02 of AOI per share on a year-over-year basis – driven by transformation savings on salaries and related costs – partially offsetting the $0.04 AOI per share decline across our revenue streams.

Overall, our diversified, largely investment-grade client base and Element's resilient business model, underpinned an AOI result for the quarter that met and, in some respects, exceeded our expectations.

### Originations

We originated $1.3 billion of assets in the quarter – $500 million or 28% lower than Q2 2019 and $724 million or 36% lower than last quarter. Origination volumes moderated as expected given that OEM production facilities and dealerships were closed for most of the quarter. Also as expected, many clients chose to postpone fleet vehicle replacements in the quarter while they focused on other aspects of their business (impacted by COVID-19).

Importantly, notwithstanding the reduction in originations, we view postponed orders and delayed originations in the quarter as largely deferred rather than lost units of revenue and cash flow. There are isolated instances in specific industries where clients hit hard by the consequences of COVID-19 are paring back on their unit counts. However, we have not seen meaningful de-fleeting to date, and we are carefully tracking all the leading indicators. ("De-fleeting" is when a client decides to materially reduce the size of their fleet.)

The table below sets out the geographic distribution of Element's originations for the following three-month periods:

| (in $000's for stated values) | **Ended June 30, 2020** | | Ended March 31, 2020 | | Ended June 30, 2019 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| United States and Canada | **1,055,608** | **80.77** | 1,742,215 | 85.78 | 1,519,666 | 84.12 |
| Mexico | **141,602** | **10.84** | 184,175 | 9.07 | 142,145 | 7.87 |
| Australia and New Zealand | **109,594** | **8.39** | 104,597 | 5.15 | 144,704 | 8.01 |
| Total | **1,306,804** | 100.00 | 2,030,987 | 100.00 | 1,806,515 | 100.00 |

Declines in originations varied materially by geography: from $464 million or 31% year-over-year and $687 million or 39% quarter-over-quarter in the U.S. and Canada to near flat year-over-year and $43 million or 23% quarter-over-quarter in Mexico.

Originations in ANZ fell by $35 million or 24% year-over-year in Q2, while quarter-over-quarter originations grew by $5 million or 5%.

H1 2020 originations in ANZ remain approximately 25% below H1 2019 origination levels. Given the region's challenges with wildfires prior to COVID-19, we are pleased with the H1 2020 performance of Custom Fleet, whose originations include new clients won away from competitors as well as a conversion of a self-managed fleet into a new client.

We note the correlation in origination volumes with the timing, extent and duration of COVID-19's impact in the quarter on our different operating geographies.

- Australia and New Zealand were the first Element locations to be "hit" by the virus, but the extent and duration of the impact was relatively modest, and Custom Fleet's quarter-over-quarter origination volumes ultimately grew in Q2.
- COVID-19 arrived in Mexico relatively late in the quarter, allowing time for our business in that region to continue its strong originations trend until vehicle availability was curtailed.
- We believe Q2 is likely to represent "peak COVID-19" in the U.S. and Canada in terms of simultaneous transcontinental economic disruption, and our origination volumes were significantly decreased both year-over-year and quarter-over-quarter.

## Assets under management

Our AUM at the end of the quarter totaled to $17.0 billion, representing a 10% or approximately $1.5 billion increase over Q2 2019 levels. On a constant currency basis, the comparative growth equates to 7.5% or approximately $1.2 billion.

Reflecting the marked reduction in Q2 originations discussed above, Q2 AUM levels represent a 2% or approximately $0.3 billion reduction from previous quarter levels on a constant currency basis. AUM movement is broken down further in our Supplementary Information document available on our website.

## Net financing revenue

Net financing revenue decreased $2.9 million year-over-year and increased $5.4 million quarter-over-quarter.

The year-over-year decrease of 3% represents relatively strong performance for two reasons: first, net earning assets decreased by 13% over the same period; and second, Q2 2019 net financing revenue included a $10.1 million contribution from 19th Capital, whereas Q2 2020 contained a $2.8 million net financing revenue contribution from 19th Capital. Excluding 19th Capital from the comparative results, net financing revenue increased $4.5 million or 4.7% year-over-year.

We note three material variances in the makeup of our net financing revenue that resulted in the $5.4 million or 5.6% increase quarter-over-quarter:

- Our Q1 net financing revenue contained $5.6 million of contribution from 19th Capital, while Q2

net financing revenue contained $2.8 million from 19th Capital. Excluding these contributions, the quarter-over-quarter increase in net financing revenue was $8.2 million.

- Our Q1 net financing revenue reflected a $12 million provision for credit losses in order to increase our balance sheet allowance for credit losses to $20 million at March 31, 2020. The credit profile of our client base remained strong in Q2 and our ability to recover in the event of default improved with the rebound in used vehicle market volumes. As a result, we maintained our allowance for credit losses unchanged at $20 million at June 30, 2020.

- Partly offsetting the substantial improvement in provision for credit losses quarter-over-quarter were the expected reductions in gain on sale revenue from ANZ (a 22% decrease) and originations in the quarter (a 36% decrease).

It is important to note that the quarter-over-quarter reduction in gain on sale revenue is volume-based - impacted by lower average auction house capacity in the quarter (driven by COVID-19) - and that overall used vehicle pricing has remained quite strong. We see continued strength in the secondary markets across our geographies subsequent to quarter-end. We provide additional datapoints in section 8.3 of our Supplementary Information document.

## Average net earning assets, and net interest and rental revenue margin (NIM)

| | For the three-month periods ended | | | For the six-month periods ended | |
|---|---|---|---|---|---|
| (in $000's for stated values) | **June 30, 2020** | March 31, 2020 | June 30, 2019 | **June 30, 2020** | June 30, 2019 |
| Total average net earning assets | **$ 11,626,619** | $ 11,909,612 | $ 13,064,470 | **$ 11,768,287** | $ 13,238,071 |
| Net interest income and rental revenue | **6.51 %** | 6.73 % | 7.11 % | **6.62 %** | 7.08 % |
| Interest expense | **3.05 %** | 3.53 % | 3.94 % | **3.29 %** | 3.90 % |
| Net interest and rental revenue margin or NIM | **3.46 %** | 3.20 % | 3.17 % | **3.33 %** | 3.18 % |
| Average debt outstanding | **$ 12,944,547** | $ 13,056,159 | $ 13,162,242 | **$ 13,025,353** | $ 13,360,999 |
| Average cost of debt (Interest expense / average debt) | **2.73 %** | 3.22 % | 3.91 % | **2.97 %** | 3.86 % |
| Average 1-Month LIBOR rates | **0.35 %** | 1.41 % | 2.47 % | **0.89 %** | 2.48 % |

Average net earning assets decreased $1.4 billion or 11% year-over-year and $283 million or 2% quarter-over-quarter as a result of syndication activity and the decline in origination volumes in the quarter. Earning asset changes are broken down in our Supplementary Information document.

Net interest and rental revenue margin (or NIM) improved 29 basis points year-over-year and 26 basis points quarter-over-quarter. The year-over-year improvement was a function of the 11% decrease in average net earning assets from Q2 2019 to Q2 2020 being larger than the 3% decrease in net financing revenue over the same period. Quarter-over-quarter net earning assets decreased by 2% while net financing revenue increased by 6%. The improvement of net financing revenue as a percentage of average net earning assets is driven by:

- our work to strengthen and optimize Element's balance sheet, resulting in decreased debt costs,

- instances of improved client profitability across our portfolio and

- incremental changes in the geographic mix of our net earning assets.

## Servicing income, net

Servicing income has been a major area of focus and was resilient in the quarter amid a global pandemic, declining 8% year-over-year and 9% quarter-over-quarter. These declines were led by U.S. and Canadian servicing income slowdown (10% year-over-year and 6% quarter-over-quarter) whereas both ANZ and Mexico servicing income was effectively flat on both comparative bases.

The majority of servicing income is driven by clients' vehicle usage. We discuss four overarching reasons for the durability of Q2 servicing income in "Achievements and Initiatives in the Period – Resilient servicing income" on page 13 above.

Notwithstanding the majority of our clients' relatively high use of their fleets in the quarter, fewer absolute miles driven impacted servicing income from fuel, maintenance, accident and toll & violation services as expected. Further, department of motor vehicles closures delayed title & registration fees, and the restrictions on auction house activity reduced remarketing volume and remarketing revenue accordingly.

There was gradual reversion towards 2019 levels across most contributors to servicing income, beginning as early as halfway through the quarter depending on geography. However, we cannot predict when or if further recovery will accelerate. Section 8.2 of our Supplementary Information document (available on our website) provides datapoints on servicing income contributors in the period.

## Syndication revenue, net

Syndication revenue declined 52% year-over-year and 60% quarter-over-quarter in Q2, equivalent to approximately $0.02 of adjusted operating income per share and reflecting a lower volume of assets syndicated quarter-over-quarter and lower revenue yield on assets on both comparative bases. We syndicated $759 million of assets (including $73 million to new investors) in Q2, resulting in $10.3 million of syndication revenue and significant contribution to our balance sheet de-leveraging in the quarter.

The syndication market has remained open to Element throughout this year and we continue to enjoy robust demand for our assets. The quarter-over-quarter decrease in syndication revenue is a function of (i) the 9% decrease in volume of assets syndicated, (ii) the significant tightening of pricing on our assets throughout the quarter (notwithstanding the persistent demand) - this was true for all leases, including those with high-grade credit counterparties such as Armada (whose assets we need to syndicate) - (iii) one-time costs incurred to support the re-amortization of a large client's previously-syndicated assets, partially offset by resulting benefits to net financing revenue and (iv) the particular mix of assets syndicated in the quarter.

While we largely expected pricing to contract in this environment, it has occurred sooner and more drastically than we had anticipated. Many buyers of our syndicated product are financial institutions whose cash-on-hand desires and requirements are significant at this time.

Subsequent to quarter-end, in limited instances we are seeing investor hurdle rates decrease. However, there is no definitive trend at this time.

Our priority remains to maintain a significant presence in the syndication market and further increase demand for our assets. We made a small number of talented additions to our syndication team in the second quarter who are already contributing to expanding our universe of prospective investors. We transacted with 4 new investors for $143 million of assets in total in the first half of this year. Additional prospective buyers continue to express interest in our product.

## Adjusted operating expenses

Adjusted operating expenses were $9.2 million lower in the quarter than in Q2 2019 - driven by transformation savings primarily on salaries - and approximately $3.6 million lower quarter-over-quarter. Quarter-over-quarter, G&A savings due to travel restrictions, continued impact of transformation savings and currency fluctuations all contributed to the decline.

# Summary of Quarterly Information

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended June 30, 2020. This information has been prepared on the same basis as the Company's audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the related notes to those statements.

| (in $ 000's for stated values, except per share amounts and ratios) | **Q2 2020** | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 |
|---|---|---|---|---|---|---|---|---|
| Net revenue | **225,503** | 247,239 | 256,509 | 245,796 | 249,570 | 242,227 | 221,480 | 221,255 |
| Adjusted operating income [(1)] | **111,144** | 129,322 | 138,386 | 127,650 | 125,976 | 121,954 | 96,529 | 98,091 |
| After-tax adjusted operating income [(1)] | **93,361** | 105,397 | 112,797 | 105,311 | 101,411 | 100,612 | 79,154 | 80,433 |
| Net income (loss) | **58,594** | 79,358 | (116,978) | 70,145 | 64,061 | 80,473 | 41,145 | (341,105) |
| Earnings (loss) per share, basic | **0.11** | 0.16 | (0.29) | 0.14 | 0.12 | 0.16 | 0.07 | (0.93) |
| Earnings (loss) per share, diluted | **0.11** | 0.16 | (0.29) | 0.13 | 0.12 | 0.16 | 0.07 | (0.93) |
| Adjusted operating income per share, basic [(1)] | **0.23** | 0.27 | 0.29 | 0.27 | 0.26 | 0.26 | 0.20 | 0.23 |
| After-tax adjusted operating income per share, basic [(1)] | **0.19** | 0.22 | 0.23 | 0.22 | 0.21 | 0.21 | 0.16 | 0.18 |
| After-tax pro forma diluted adjusted operating income per share [(1)] | **0.19** | 0.21 | 0.22 | 0.21 | 0.22 | 0.20 | 0.16 | 0.18 |
| Total earning assets | **11,025,581** | 11,999,636 | 11,783,853 | 12,388,224 | 12,714,943 | 13,141,273 | 13,662,821 | 13,180,374 |
| Loan and lease originations | **1,306,804** | 2,030,988 | 2,225,909 | 2,106,603 | 1,806,515 | 1,712,849 | 1,819,476 | 1,486,700 |
| Allowance for credit losses | **20,000** | 20,000 | 8,432 | 7,810 | 8,183 | 10,096 | 9,332 | 549,798 |
| As a % of total finance receivables before allowance | **0.18** | 0.16 | 0.07 | 0.06 | 0.07 | 0.08 | 0.07 | 4.20 |
| Senior revolving credit facilities | **1,774,086** | 1,869,919 | 1,703,507 | 1,824,014 | 2,372,370 | 2,153,786 | 2,406,195 | 2,617,114 |
| Borrowings | **9,441,849** | 10,529,564 | 10,189,354 | 10,329,638 | 9,828,447 | 10,567,390 | 10,864,585 | 9,784,284 |
| Convertible debentures | **151,976** | 715,978 | 711,791 | 715,399 | 711,305 | 903,024 | 897,435 | 891,929 |

*(1) For additional information, see "Description of Non-IFRS Measures" section.*

# Effect of Foreign Currency Exchange Rate Changes

We are exposed to fluctuations in certain foreign currencies from operations we conduct in Australia, New Zealand, Mexico and, predominantly, the United States where, as at June 30, 2020, 8.3%, 4.0%, 7.2% and 68.9% of the net finance receivables and equipment under operating leases were located, respectively. While Element has certain designated hedges that partially mitigate the effects of FX exposure, our assets, liabilities, and foreign operating results do fluctuate as a result of fluctuations in these currencies against the reporting currency, being the Canadian dollar.

During the second quarter, adjusted operating income was not materially impacted by the change in average exchange rates of the Company's operating currencies against the Canadian dollar compared to adjusted operating income for the quarters ended March 31, 2020 and June 30, 2019. However, assets under management increased by $1,533 million due to the increase in the U.S. dollar spot rate utilized at June 30, 2020 which had appreciated significantly as a result of uncertainty in the foreign currency exchange markets related to COVID-19. Assets under management decreased by $730 million at June 30, 2020 compared to March 31, 2020, as the spot rate utilized for the U.S. dollar decreased from its high point as of March 31, 2020 amid the COVID-19 pandemic.

The following table sets forth a summary of the Company's results from both Fleet Management and Non-Core operations on a **constant currency** basis:

| | For the three-month periods ended | | | For the six-month periods ended | |
|---|---|---|---|---|---|
| (in $000's for stated values) | **June 30, 2020** | March 31, 2020 | June 30, 2019 | **June 30, 2020** | June 30, 2019 |
| | **$** | $ | $ | **$** | $ |
| Interest income, net | **140,708** | 143,698 | 171,571 | **284,406** | 344,426 |
| Rental revenue and other | **147,997** | 168,242 | 174,874 | **316,239** | 356,166 |
| Depreciation of equipment under operating leases | **(99,371)** | (110,677) | (112,660) | **(210,047)** | (228,198) |
| | **189,334** | 201,263 | 233,785 | **390,598** | 472,394 |
| Interest expense | **88,679** | 106,108 | 130,806 | **194,787** | 262,478 |
| **Net financing revenue** | **100,655** | 95,155 | 102,979 | **195,811** | 209,916 |
| Fleet service revenue | **124,418** | 139,738 | 137,959 | **264,177** | 270,613 |
| Direct costs of fixed rate service contract | **(9,903)** | (10,699) | (10,832) | **(20,602)** | (22,090) |
| **Servicing income, net** | **114,515** | 129,039 | 127,127 | **243,575** | 248,523 |
| **Syndication revenue, net** | **10,333** | 26,897 | 22,531 | **37,230** | 40,478 |
| **Net revenue** | **225,503** | 251,091 | 252,637 | **476,616** | 498,917 |
| Salaries, wages and benefits | **74,859** | 76,662 | 85,570 | **151,521** | 167,041 |
| General and administrative expenses | **28,590** | 32,336 | 29,017 | **60,926** | 59,451 |
| Depreciation and amortization | **10,910** | 10,882 | 10,598 | **21,786** | 21,101 |
| **Adjusted operating expenses** | **114,359** | 119,880 | 125,185 | **234,233** | 247,593 |
| **Adjusted operating income** | **111,144** | 131,211 | 127,452 | **242,383** | 251,324 |
| **After-tax adjusted operating income** | **93,361** | 106,938 | 102,598 | **200,320** | 204,793 |
| **Net earning assets** | **11,025,581** | 11,795,368 | 12,956,919 | **11,025,581** | 12,956,919 |
| **Average net earning assets** | **11,626,619** | 11,711,653 | 13,322,788 | **11,669,136** | 13,408,453 |

# Financial Position

The following table presents a summary of the comparative financial positions, as at:

| (in $000's for stated values) | **June 30, 2020** | March 31, 2020 | December 31, 2019 |
|---|---|---|---|
| | **$** | $ | $ |
| **ASSETS** | | | |
| Cash | **63,665** | 90,845 | 24,224 |
| Restricted funds | **567,630** | 541,948 | 434,128 |
| Finance receivables | **11,282,278** | 12,451,057 | 11,986,974 |
| Equipment under operating leases | **1,970,298** | 2,017,498 | 2,101,367 |
| Accounts receivable and other current assets | **201,221** | 227,605 | 219,676 |
| Derivative financial instruments | **80,663** | 93,966 | 41,396 |
| Property, equipment and leasehold improvements | **129,757** | 145,703 | 141,626 |
| Intangible assets | **829,761** | 847,157 | 793,279 |
| Deferred tax assets | **460,557** | 463,353 | 440,952 |
| Goodwill | **1,297,275** | 1,341,223 | 1,245,981 |
| | **16,883,105** | 18,220,355 | 17,429,603 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | **937,327** | 991,607 | 924,936 |
| Derivative financial instruments | **107,314** | 118,763 | 39,145 |
| Borrowings | **11,758,735** | 12,399,483 | 11,892,861 |
| Convertible debentures | **151,976** | 715,978 | 711,791 |
| Deferred tax liabilities | **48,899** | 46,246 | 48,225 |
| | **13,004,251** | 14,272,077 | 13,616,958 |
| Shareholders' equity | **3,878,854** | 3,948,278 | 3,812,645 |
| | **16,883,105** | 18,220,355 | 17,429,603 |

Total assets and liabilities decreased by $1,337 million and $1,268 million, respectively over Q1. 73% of Element's assets are U.S. dollar-denominated, as a result of which movements in the value of the U.S. compared to the Canadian dollar have an impact on our balance sheet. We also have assets denominated in Mexican pesos and Australian and New Zealand dollars, although these are smaller tranches of our portfolio. In Q2 2020, the quarter-over-quarter decrease in total assets and liabilities was primarily driven by a strengthening Canadian dollar against the U.S. dollar. The net impact of all currency variations flows through to Shareholders' Equity as Other Comprehensive Income.

# Portfolio Details

## Total finance receivables

The following table breaks down the Company's total finance receivables which had decreased by $705 million at quarter-end compared to December 31, 2019, largely driven by the cumulative impact of syndication and, to a lesser extent, a strengthened Canadian dollar:

| (in $000's for stated values, except ratios) | **June 30, 2020** | March 31, 2020 | December 31, 2019 |
|---|---|---|---|
| | **$** | $ | $ |
| Net investment in finance receivables | **9,055,283** | 9,982,138 | 9,682,486 |
| Impaired receivables - at net realizable value | **112,038** | 96,821 | 53,532 |
| | **9,167,321** | 10,078,959 | 9,736,018 |
| Unamortized origination costs and subsidies | **(100,459)** | (114,117) | (107,257) |
| Net finance receivables | **9,066,862** | 9,964,842 | 9,628,761 |
| Prepaid lease payments and Security deposits | **(36,825)** | (51,508) | (66,867) |
| Interim funding | **1,496,852** | 1,606,617 | 1,421,607 |
| Fleet management service receivables | **448,795** | 649,772 | 691,908 |
| Other | **326,594** | 301,334 | 319,997 |
| | **11,302,278** | 12,471,057 | 11,995,406 |
| Allowance for credit losses | **20,000** | 20,000 | 8,432 |
| Total finance receivables | **11,282,278** | 12,451,057 | 11,986,974 |
| **Ratios** | | | |
| Allowance for credit losses as a % of total finance receivables before allowance | **0.18 %** | 0.16 % | 0.07 % |

## Allowance for credit losses

Credit losses and provisions as at and for the three- and six-month periods ended March 31, and June 30, 2020, respectively, and the twelve-month period ended December 31, 2019 are as follows:

| (in $000's for stated values, except ratios) | **Six months ended June 30, 2020** | Three months ended March 31, 2020 | Twelve months ended December 31, 2019 |
|---|---|---|---|
| | **$** | $ | $ |
| Allowance for credit losses, beginning of period | **8,432** | 8,432 | 9,332 |
| Provision for credit losses | **13,112** | 12,055 | 2,082 |
| Charge-offs, net of recoveries | **(1,383)** | (902) | (2,227) |
| Impact of foreign exchange rates | **(161)** | 415 | (755) |
| Allowance for credit losses, end of period | **20,000** | 20,000 | 8,432 |
| Allowance for credit losses as a % of total finance receivables before allowance | **0.18 %** | 0.16 % | 0.07 % |

Element's policy is to assess credit risk related to specific client defaults by performing detailed assessments on the value of the underlying security, and the client's financial condition and ability to service the debt, both at loan inception and throughout the term of the loan.

While it is difficult to perform these assessments in the current environment and predict the future impact, our experience and activity in Q2 was encouraging. We reviewed inputs to our expected credit loss model throughout the quarter. There were immaterial changes to the probability of client defaults, and positive improvement in the amounts likely to be recovered in the event of default. These datapoints suggested a $20 million allowance for credit losses was more than sufficient. We also considered forward-looking macroeconomic information in light of COVID-19, such as projected changes in GDP and the impact that potential downward trends in GDP would have on our lease and loan portfolio. We evaluated multiple COVID-19 scenarios including various durations of market slow-down and recovery. Given the uncertainty

of the pandemic and based on conservative expectations, we have maintained our balance sheet allowance for credit losses unchanged at $20 million at June 30, 2020.

Allowance for credit losses specifically in respect of impaired receivables

A portion of Element's allowance for credit losses is maintained specifically in respect of impaired receivables and calculated as the difference between (i) the carrying amounts of the assets on the consolidated statements of financial position and (ii) the present value of the estimated future cash flows on the net finance receivables, discounted at the finance receivables' original effective interest rate. This portion of our allowance for credit losses did not change quarter-over-quarter - despite the increase in impaired receivables reported in the next table - because we expect negligible if any credit losses from the circumstance that drove the increase (as explained further under "Credit" below).

## Delinquencies and impaired receivables

The contractual delinquency and impairment of net finance receivables at each reporting period is as follows:

| (in $000's for stated values) | **June 30, 2020** | | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| **Current** | **8,919,507** | **98.37** | 9,934,312 | 98.56 | 9,667,619 | 99.29 |
| **31 to 60 days** | **21,120** | **0.23** | 32,742 | 0.32 | 8,410 | 0.09 |
| **61 to 90 days** | **6,324** | **0.07** | 4,001 | 0.04 | 3,433 | 0.04 |
| **91 to 120 days** | **7,873** | **0.09** | 11,083 | 0.11 | 3,024 | 0.03 |
| **Impaired receivables** | **112,038** | **1.24** | 96,821 | 0.96 | 53,532 | 0.55 |
| **Total** | **9,066,862** | **100.00** | 10,078,959 | 100.00 | 9,628,761 | 100.00 |

Collections and credit continue to perform in line with expectations.

Collections

Our aggregate reported delinquencies at quarter-end decreased by $12.5 million or 26% quarter-over-quarter - from $47.8 million to $35.3 million - and we expect improvements to continue as we manage delinquencies back to pre-COVID-19 levels.

As noted last quarter, the delinquency values reported in the table above are Element's aggregate net investments in finance receivables (i.e. finance lease receivables and finance loan receivables) attributable to delinquent client accounts - and not the actual amounts in respect of which clients were delinquent. The actual net finance receivable amounts in respect of which clients were delinquent at June 30, 2020 totaled $2.9 million, which is in line with pre-COVID-19 levels. We provide historical context in section 9.2 of our Supplementary Information document, available on the Company's website.

Credit

Total impaired receivables were $112 million at quarter-end, a $15.2 million or 16% increase from March 31, 2020. As communicated last quarter, we expected three clients on our watchlist to enter bankruptcy in the second quarter, which they did. Having worked closely with two of these clients (comprising $42 million of the $47 million in new impaired receivables) leading up to and throughout their ongoing restructuring proceedings, we do not expect to incur any credit losses on these accounts. Moreover, and as reflected in the $32 million reduction in impaired receivables during the second quarter (arising from repayments and asset sales), we expect negligible credit losses in total from all currently impaired accounts. Please refer to section 10.0 of our Supplementary Information document for further insight.

Classifying receivables as impaired

Accounts over 120 days past due are automatically considered impaired, fully provisioned net of any anticipated recoveries and recorded at their net realizable value.

Accounts that are contractually delinquent less than 120 days may nonetheless be assessed as impaired. Individual impairment is assessed by examining contractual delinquency and the client's financial condition, such as the identification of an approaching bankruptcy or the client being in the process of legal or collateral repossession proceedings with a debtor. Impairments of this nature are provisioned by applying probability-weighted assumptions consistent with industry standards and our experience with respect to the probability of an identified account resulting in a client default.

We believe the impaired receivables figure in the table above appropriately reflect the net realizable value of the finance receivables before any allowance for credit losses.

## Portfolio Distribution by Geography

The table below sets forth the geographical distribution of the Company's portfolio of net finance receivables and equipment under operating leases, as at:

| (in $000's for stated values) | **June 30, 2020** | | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| United States and Canada | **8,576,967** | **77.7** | 9,650,645 | 80.5 | 9,326,874 | 79.5 |
| Australia and New Zealand | **1,542,374** | **14.0** | 1,472,860 | 12.3 | 1,557,365 | 13.2 |
| Mexico | **917,819** | **8.3** | 858,835 | 7.2 | 845,889 | 7.3 |
| Total | **11,037,160** | **100.0** | 11,982,340 | 100.0 | 11,730,128 | 100.0 |
| Allocated as: | | | | | | |
| Net finance receivables | **9,066,862** | **82.1** | 9,964,842 | 83.2 | 9,628,761 | 82.1 |
| Equipment under operating leases, net | **1,970,298** | **17.9** | 2,017,498 | 16.8 | 2,101,367 | 17.9 |
| Total | **11,037,160** | **100.0** | 11,982,340 | 100.0 | 11,730,128 | 100.0 |

The table below sets forth the geographical distribution of the Company's assets under management, as at:

| (in $000's for stated values) | **June 30, 2020** | | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| United States and Canada | **14,570,740** | **85.5** | 15,418,151 | 86.7 | 14,203,747 | 85.0 |
| Australia and New Zealand | **1,539,793** | **9.0** | 1,470,211 | 8.3 | 1,550,004 | 9.3 |
| Mexico | **939,156** | **5.5** | 891,777 | 5.0 | 956,239 | 5.7 |
| Total | **17,049,689** | **100.0** | 17,780,139 | 100.0 | 16,709,990 | 100.0 |

# Liquidity

Element's primary sources of liquidity are daily operating cash flow from financing, leasing, syndication and service activities, and committed credit and debt facilities. Our primary uses of cash are the funding of finance receivables and operating leases, and working capital.

## Cash Flow

Daily cash flow / liquidity

As part of our business continuity planning in Q1 2020 - in anticipation of the potential scale and consequences of COVID-19 at the time - we instituted a global cash management office to assess and proactively manage Element’s liquidity position by ensuring we have robust controls over every source and use of cash flow. The cash management office also stress-tested to identify early indications, risks and sensitivities in maintaining that cash flow. Every belief and assumption we held regarding the stability of Element’s business model was tested for legitimacy in all circumstances we could envision. The result has been peace of mind and comfort that our liquidity is sustainable, which has allowed us to focus on supporting our clients through the challenges and opportunities COVID-19 has brought to their businesses.

Motivated by the economic consequences of COVID-19, liquidity management has become a priority for most businesses in the world. Notwithstanding our dependable operating cash flows and approximately $5 billion of committed, undrawn capital at quarter-end, we are working to sustainably enhance our dynamic liquidity management capabilities, including data analysis capacity and forecasting.

Free cash flow

We present our (i.e. management's) view of Element’s free cash flow in our Supplementary Information document available on the Company's website.

Statement of cash flows

Cash provided by operating activities - as presented in our interim condensed consolidated financial statements - was $1,210.7 million, an increase of $559.7 million from the $651.0 million provided by operating activities for the six months ended June 30, 2019. The increase was primarily the result of higher syndication proceeds and lower investments in finance leases and equipment under operating leases resulting from postponed orders and delayed originations driven by COVID-19.

Cash provided by investing activities for the six months ended June 30, 2020 was $30.0 million - a $71.9 million year over year negative delta to the $102.0 million of cash provided by investing activities in the six months ended June 30, 2019. The primary reasons for the delta are (i) current quarter purchases of intangible assets were greater than in Q2 2019, (ii) Q2 2019 benefited from cash proceeds from the sale of our Eden Prairie, MN office building and our ECAF I Holdings Ltd. investment offset partially by (iii) the sale of 19th Capital in Q2 2020.

Cash used in financing activities for the six months ended June 30, 2020 was $1,210.1 million, compared to $682.1 million used in financing activities for the six months ended June 30, 2019. The year over year increase is primarily due to (i) the settlement of 19th Capital related debt (ii) the retirement of the 2015 convertible debentures, and an (iii) increase in borrowings by comparison to Q2 2019 offset by (iv) the issuance of our senior notes.

## Credit and debt facilities

Maintaining ready access to diversified sources of cost-efficient capital is a strategic imperative for Element.

We had $4.7 billion of contractually committed, undrawn liquidity across our revolving unsecured ($1.8 billion) and vehicle management asset-backed ($2.9 billion) facilities at June 30, 2020. Commitments under these facilities are provided by long-standing syndicates of leading Canadian and international banks.

These sources of financing were as follows:

| As at | June 30, 2020 | | | |
|---|---|---|---|---|
| *(in $000's for stated values)* | $ | % | $ | $ |
| | **Committed size** | **Undrawn amount** | | **Drawn amount** |
| **Senior unsecured revolving credit facilities** | **3,528,200** | ***49.7*** | **1,754,114** | **1,774,086** |
| | | | | |
| **Senior notes** | **542,800** | **—** | **—** | **542,800** |
| Vehicle management asset-backed debt facilities | | | | |
| Term notes amortization | **4,564,215** | **—** | **—** | **4,564,215** |
| Variable | **7,738,485** | ***37.3*** | **2,889,866** | **4,848,619** |
| Other | **45,473** | **—** | **—** | **45,473** |
| **Total vehicle management asset-backed debt** | **12,348,173** | ***23.4*** | **2,889,866** | **9,458,307** |
| **Total cash** | | | **63,665** | |
| **Total capital available for continuing operations** | | | **4,707,645** | |

| As at | March 31, 2020 | | | |
|---|---|---|---|---|
| *(in $000's for stated values)* | $ | % | $ | $ |
| | **Committed size** | **Undrawn amount** | | **Drawn amount** |
| **Senior unsecured revolving credit facilities** | 3,658,460 | *48.9* | 1,788,541 | 1,869,919 |
| Vehicle management asset-backed debt facilities | | | | |
| Term notes amortization | 5,435,758 | — | — | 5,435,758 |
| Variable | 8,670,458 | *42.3* | 3,663,499 | 5,006,959 |
| Other | 104,512 | — | — | 104,512 |
| **Total vehicle management asset-backed debt** | 14,210,728 | *25.8* | 3,663,499 | 10,547,229 |
| **Total cash** | | | 90,845 | |
| **Total capital available for continuing operations** | | | 5,542,885 | |

| As at | December 31, 2019 | | | |
|---|---|---|---|---|
| *(in $000's for stated values)* | $ | % | $ | $ |
| | **Committed size** | **Undrawn amount** | | **Drawn amount** |
| **Senior unsecured revolving credit facilities** | 3,376,100 | *49.5* | 1,672,593 | 1,703,507 |
| Vehicle management asset-backed debt facilities | | | | |
| Term notes amortization | 5,697,575 | — | — | 5,697,575 |
| Variable | 8,236,454 | *47.0* | 3,872,777 | 4,363,677 |
| Other | 169,485 | — | — | 169,485 |
| **Total vehicle management asset-backed debt** | 14,103,514 | *27.5* | 3,872,777 | 10,230,737 |
| **Total cash** | | | 24,224 | |
| **Total capital available for continuing operations** | | | 5,569,594 | |

Subsequent to quarter-end, and as previously disclosed, Element issued US $750 million of term notes under our Chesapeake Funding II LLC vehicle management asset-backed debt facility. The proceeds were used at the time of closing to pay down variable funding notes outstanding. This issuance aligns with our strategic priorities to continue to strengthen Element's investment-grade balance sheet and diversify our access to cost-efficient capital. The issuance also brings our contractually committed, undrawn liquidity to $5.7 billion at July 22, 2020.

We believe the $5.7 billion of liquidity available to the Company at July 22, 2020 coupled with our durable operating cash flow is sufficient to fund Element's business through the balance of 2020 and pay dividends to all preferred and common shareholders.

# Capital Resources

## Capitalization

Element's funding activities are well diversified by facility, geography, currency, investor and lender and include both secured and unsecured sources.

The Company's capitalization is calculated as follows:

| **As at** | **June 30, 2020** | March 31, 2020 | December 31, 2019 |
|---|---|---|---|
| *(in $000's)* | **$** | $ | $ |
| Cash | **63,665** | 90,845 | 24,224 |
| Unsecured debt | | | |
| Senior credit facilities | **1,774,086** | 1,869,919 | 1,703,507 |
| 4.250% Convertible Debentures due 2020 | **—** | 565,119 | 562,034 |
| 4.250% Convertible Debentures due 2024 | **151,976** | 150,859 | 149,757 |
| 3.850% Senior Notes due 2025 | **542,800** | — | — |
| Vehicle Management Asset-Backed Debt | | | |
| Term notes amortization | **4,564,215** | 5,435,758 | 5,697,575 |
| Variable | **4,848,619** | 5,006,959 | 4,363,677 |
| Other | **45,473** | 104,512 | 169,485 |
| Deferred financing costs | **(40,232)** | (44,200) | (48,804) |
| Hedge accounting fair value adjustments | **23,774** | 26,535 | 7,421 |
| **Total debt** | **11,910,711** | 13,115,461 | 12,604,652 |
| Shareholders' equity | | | |
| Common share capital | **3,204,218** | 3,201,740 | 3,127,714 |
| Preferred share capital | **680,412** | 680,412 | 680,412 |
| Other | **(5,776)** | 66,126 | 4,519 |
| **Total Shareholders' Equity** | **3,878,854** | 3,948,278 | 3,812,645 |
| **Total Capitalization** | **15,789,565** | 17,063,739 | 16,417,297 |

On June 2, 2020, Element completed its inaugural issuance of US $400 million 3.85% senior unsecured investment-grade notes due June 15, 2025. The proceeds of the Notes, together with cash on hand, were used to retire the Company's $567 million of 4.25% convertible debentures upon their maturity date of June 30, 2020. The issuance of the Notes is part of our strategic plan to continue to strengthen the Company's investment-grade balance sheet - including by maturing our capital structure and further diversifying access to cost-efficient funding.

In April 2020, we had also established a $560 million committed, non-revolving credit facility (the "Supplementary Credit Facility") that was available to be drawn in a single advance by no later than June 30, 2020. This facility was established in recognition of the potential lasting bond-market volatility at the time. The Supplementary Credit Facility was terminated upon successful issuance of the US $400 million 3.85% senior unsecured investment-grade notes.

We view both financial and tangible leverage as key indicators of the strength of Element's financial position. At June 30, 2020, our financial leverage ratio was 3.07:1 and tangible leverage ratio was 6.80:1. Excluding the impacts of FX volatility and our non-recourse warehouse credit facility, which exclusively funds pre-syndication assets for Armada, Element's tangible leverage ratio at June 30, 2020 would have been 5.96:1.

The Company's financial and tangible leverage is calculated as follows:

| **As at** | | **June 30, 2020** | December 31, 2019 |
|---|---|---|---|
| *(in $000's, except ratios)* | | **$** | $ |
| Borrowings | | **11,758,735** | 11,892,861 |
| Convertible debentures | | **151,976** | 711,791 |
| Total debt | **(a)** | **11,910,711** | 12,604,652 |
| Total shareholders' equity | **(b)** | **3,878,854** | 3,812,645 |
| | | **15,789,565** | 16,417,297 |
| Goodwill and intangible assets | **(c)** | **2,127,036** | 2,039,260 |
| Financial leverage | **(a)/(b)** | **3.07** | 3.31 |
| Tangible leverage | **(a)/[(b)-(c)]** | **6.80** | 7.11 |

The Company was in compliance with all financial and reporting covenants with all of its lenders at June 30, 2020.

## Credit ratings

Our ability to access financing on a cost-efficient basis is largely dependent on maintaining strong investment-grade credit ratings. Credit ratings and outlooks assigned by rating agencies reflect their views and methodologies. The credit ratings are subject to change based on several factors, including but not limited to our financial strength, competitive position, liquidity and other factors not entirely within our control.

**Credit Ratings [1] as at June 30, 2020**

| **Rating agency** | **Issuer rating** | **Outlook** |
|---|---|---|
| DBRS Limited | BBB (high) | Stable |
| Fitch Ratings | BBB+ | Stable |
| Kroll Bond Rating Agency | A- | Stable |
| Standard& Poor's | BBB | Stable |

(1) Credit ratings are not recommendations to purchase, sell or hold a financial obligation in as much as they do not comment on market price or suitability for a particular investor. Ratings are determined by the rating agencies based on criteria established from time to time by them and are subject to revision or withdrawal at any time by the rating organization.

Standard & Poor's initiated coverage of Element in October 2019 with a BBB investment-grade credit rating, while Fitch Ratings affirmed its BBB+ investment-grade rating of Element and improved its outlook to stable in September 2019. These two U.S. investment-grade ratings paved the way for Element to issue its inaugural investment-grade bond in the U.S. senior unsecured corporate debt market in the quarter.

# Outlook and Economic Conditions

## Context for Our Outlook

In Fall 2018, the current management team completed an end-to-end assessment of Element's business that resulted in a strategic plan to solidify the Company's core operating platform and client relationships, strengthen and de-leverage its balance sheet, divest of all non-core assets and improve cash flow and liquidity. We also planned to have prepared and pivoted the business by the end of 2020, such that Element could focus exclusively on organic growth in 2021 and beyond.

We will have completed the transformation of Element by the end of 2020, having effected hundreds of changes to the organization resulting in a more consistent, superior client experience; greater operational efficiency and stability; an investment-grade balance sheet and maturing capital structure; diversified funding sources, including approximately $5 billion of committed, undrawn liquidity; and meaningfully improved profitability.

The organization's consistent overachievement on our transformation work allowed us to begin pivoting Element to growth ahead of schedule. In 2019 we performed comprehensive studies of Element's addressable markets in North America and Australia / New Zealand. From our findings we developed an organic growth strategy based on which we believe the Company can improve its net revenue by 4-6% annually in normal market conditions.

## Outlook and Economic Conditions

While it remains hard to predict when and exactly how the dust will settle from the COVID-19 pandemic, we believe commercial fleet vehicles will (a) remain essential to our clients' ability to generate and sustain revenue and (b) continue to have significant associated costs, in both cases for the foreseeable future.

As a result, we are confident Element's value proposition – materially reducing our clients' total cost of vehicle ownership and operation, and eliminating related administrative burden – will remain relevant.

In the second half of 2020, we will begin executing our enhanced organic growth strategy in earnest (6 months earlier than originally planned). We believe the known and likely economic consequences of the COVID-19 pandemic make Element's value proposition to new and existing clients even more compelling. Our clients enjoy:

- ready access to cost-efficient capital, diversifying their sources of financing; and
- the ability to reduce fleet ownership and operating costs over time. Element has one of the deepest datasets in the automotive industry, based on which we have already identified over $1 billion in fleet-cost-saving strategies and opportunities for our clients in 2020.

Transitioning to Element, new clients enjoy the ability to reduce fleet ownership and operating costs by approximately 20% compared to the costs of self-managing a fleet, while eliminating the administrative burden of fleet management.

- Element is one of the largest buyers of vehicles and other automotive products and services everywhere we operate. We procure on behalf of our 5,500+ clients. We use our scale to negotiate lower prices for our clients.
- Our 2,500+ employees are dedicated to efficiently providing our clients a consistent, superior service experience at every step, allowing clients to focus their time and resources on their businesses' core strengths.

New and existing Element clients that own their fleet vehicles enjoy the option of a sizeable cash infusion from the sale and leaseback of those vehicles to and from Element.

- To the extent current fleet owners, including governments, wish to free-up balance sheet/ budgetary capacity, we have the balance sheet capacity to welcome existing fleets onto our

platform, and the syndication capabilities to manage any accompanying concentration risk to Element. We also have the liquidity to effect a sale-and-leaseback transaction with the current fleet owner, and the operating experience to execute a seamless transition of responsibility for their vehicles.

Finally, if working from home and social distancing become greater societal norms post-COVID-19, we believe competition to serve ‘stay at home’-oriented consumers will increase. As a result, we believe COVID-19 could accelerate prospective Element clients’ interest in building "mega fleets" (like that of our client Armada) as retailers of all stripes recognize the attractiveness of being able to offer online shoppers proprietary home delivery.

# Risk Management

The Company has risk management processes in place to monitor, evaluate and manage the principal risks it assumes in conducting its business activities. These risks include credit, liquidity, foreign exchange, interest rate, and various sources of operational risk. The Company's primary risks have not changed materially from that described in the "Risk Management" section of the Company's 2019 Annual MD&A other than as noted below.

***Global Financial Markets and General Economic Conditions May Adversely Affect Element's Business, Financial Condition, and/or Results of Operations***

Events in the financial markets have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, financial developments seemingly unrelated to Element or to its industry may materially adversely affect Element over the course of time. For example, general volatility in the equity markets could hurt Element's ability to raise capital and significantly impact Element's access to funding and liquidity (including access to securitization and syndication markets for Element's originated finance assets). Element may also be negatively impacted by volatility in the equity markets as a result of a number of catastrophic events that are beyond Element's control, including infectious diseases, pandemics or similar health threats, such as the ongoing COVID-19 pandemic or fear of the foregoing.

Moreover, a reduction in credit, combined with reduced economic activity, may materially adversely affect businesses and industries that collectively constitute a significant portion of Element's client base and may make it more difficult for Element to maintain new business origination and the credit quality of new business at the levels currently forecast. As a result, these clients may need to reduce their purchases and reliance on Element's services or Element may experience greater difficulty in receiving payment for its services. Delinquencies, non-accruals and credit losses generally increase during economic slowdowns or recessions. Therefore, to the extent that economic and business conditions are unfavourable, Element's non-performing assets may become elevated and the value of Element's portfolio is likely to decrease.

Adverse economic conditions also may decrease the estimated value of the collateral securing some of Element's loans and leases. Further or prolonged economic slowdowns or recessions, including those caused by catastrophic events as the COVID-19 pandemic, could lead to financial losses in Element's portfolio and a decrease in Element's net finance income, net income and book value. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on Element's business, financial condition and/or results of operations.

Element has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes in jurisdictions in which Element operates. These factors could negatively affect Element's future results of operations in those markets.

***Catastrophic Events, Natural Disasters, Severe Weather and Disease***

Element’s business may be negatively impacted to varying degrees by a number of events which are beyond its control, including cyber-attacks, unauthorized access, energy blackouts, pandemics, terrorist attacks, acts of war, earthquakes, hurricanes, tornadoes, fires, floods, ice storms or other natural or manmade catastrophes.

While Element engages in emergency preparedness, including business continuity planning, to mitigate risks, such events can evolve very rapidly and their impacts can be difficult to predict. As such, there can be no assurance that in the event of any such catastrophe that Element’s operations and ability to carry on business will not be disrupted. Element may still be required to perform its obligations to third parties, notwithstanding the occurrence of any such events. A catastrophic event, including an outbreak of infectious disease, a pandemic or a similar health threat, such as the ongoing COVID-19 pandemic, or fear of any of the foregoing, could adversely impact Element by causing operating or supply chain delays and disruptions, labor shortages, expansion project delays, facility shutdowns and other business disruptions, each of which could have a negative impact on Element’s ability to conduct its business and could increase its costs. In addition, liquidity and volatility, credit availability and market and financial conditions generally could change at any time as a result. Any of these events in isolation or in

combination, could have a material negative impact on Element's financial condition, operating results and cash flows.

***COVID-19 Pandemic***

Element's business has been and will continue to be negatively impacted by the COVID-19 pandemic, which has created, and continues to create, significant societal and economic disruptions. The COVID-19 pandemic has had, and will continue to have, a broad impact across industries and the economy, including by affecting consumer confidence, global financial markets (with global equity markets having experienced significant volatility and weakness), regional and international travel, supply chain distribution of various products for many industries, oil prices, government and private sector operations, the price of consumer goods, countrywide lockdowns in various regions of the world, and numerous other impacts on daily life and commerce. Additionally, the COVID-19 pandemic has led, and may continue to lead, governments around the world to enact measures to combat the spread of the COVID-19 virus, including, but not limited to, the implementation of travel bans, border closings, mandated closure of non-essential services, self-imposed quarantine periods and social and physical distancing policies, which have contributed to the material disruption to businesses globally resulting in a sudden economic slowdown.

The ever-changing and rapidly-evolving effects of the COVID-19 pandemic - the duration, extent and severity of which are currently unknown - on investors, businesses, the economy, society and the financial markets could, among other things, add volatility to the global stock markets, change interest rate environments, and increase lease delinquencies and defaults. Therefore, the COVID-19 pandemic and measures to prevent its spread may negatively impact Element as well as Element's clients, counterparties, employees, third-party service providers and other stakeholders, as applicable, in a number of ways, including, but not limited to, by: (i) adversely affecting local, national or international economies and employment levels, triggering potentially significant inflationary pricing or a recession, affecting Element's clients' and customers' ability to make payments on leases; (ii) adversely affecting the business operations of Element, including access to its funding and financing sources (including securitization and syndication markets); (iii) Element experiencing business interruptions as a result of the strain on existing resources, including information technology systems resulting from senior management and other employees working remotely, an inability to receive required technology or other hardware due to supply chain interruption or lacking necessary staffing needed for daily operations or the completion of extraordinary projects; (iv) disrupting public and private infrastructure, including communications and financial services, which could disrupt Element's or its customers' normal business operations; (v) adversely impacting net financing revenues and liquidity caused by delays in lease payments, changes in levels of lease originations, delays or deferrals in the replacement of vehicles, impact on remarketing of vehicles, client creditworthiness and delinquencies; and (vi) adversely impacting service revenues caused by declines in fleet vehicle mileage and lower fuel, maintenance and other service consumption. Any of these events in isolation or in combination, could have a material negative impact on Element's financial condition, operating results and cash flows.

***Element Faces Tax Risks in Multiple Jurisdictions***

Element is a Canadian corporation which operates in multiple jurisdictions. As a result, it is subject to the tax laws and regulations of Canadian federal, provincial and local governments and of the governments of foreign jurisdictions in which Element operates, as well as to any income tax treaties between Canada and any such jurisdictions, and to the risk that those tax laws, regulations and treaties may change in the future. Any such changes could adversely affect the taxes payable, including withholding taxes, and the effective tax rate in the jurisdictions in which Element operates.

The determination of Element's provision for income taxes in Canada and elsewhere, including current and deferred tax assets and liabilities on Element's financial statements, requires estimates, interpretation and significant judgment. Various internal and external factors may have favorable or unfavorable effects on future provisions for income taxes and Element's effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, results of audits by tax authorities, changing interpretations of existing tax laws or regulations, changes in estimates of prior years' items, and changes in overall levels of income before taxes. Furthermore, new accounting pronouncements or new interpretation of existing accounting pronouncements can have a material impact on Element's effective income tax rate.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. The legislation includes, among other changes, a reduction in the U.S. federal corporate income tax rate,

limitations on interest deductibility, a new tax on base erosion payments, and provisions on hybrid arrangements. Throughout 2019 and 2020 the IRS and the Treasury Department have continued to issue draft and final regulations for components of the new tax legislation. In April 2020, the IRS and Treasury Department published final regulations around hybrid arrangements. Preliminary reading of the regulations indicates that there are no material long term negative impacts on Element's financial condition. Final guidance, new regulations or updated interpretations may change this expected conclusion.

Element could be impacted by certain tax treatments for various revenue streams in different tax jurisdictions. If a tax authority has a different interpretation from Element's, it could potentially impose additional taxes, penalties, fines or change the amount and timing of expected tax refunds. This would potentially reduce the amounts of revenue and net income received by Element.

Element, from time to time, has executed or may execute reorganization transactions impacting its tax structure. If a tax authority has a different interpretation from Element's, it could potentially impose additional taxes, penalties or fines on Element.

# Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operation are made with reference to the unaudited interim condensed consolidated financial statements for the three- and six-month periods ended June 30, 2020. A summary of the Company's significant accounting policies is presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2019. Some of the Company's accounting policies, as required by IFRS, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. Accounting policies that require management's judgment and estimates are described in the "Critical Accounting Policies and Estimates" section of the December 31, 2019 MD&A.

# Related Party Transactions

The Company's related parties include the following persons and/or entities: (a) associates, or entities which are controlled or significantly influenced by the Company; (b) key management personnel, which are comprised of directors and/or officers of the Company and those persons having authority and responsibility for planning, directing and controlling the activities of the Company; and (c) entities controlled by key management personnel.

The Company has issued notes receivables that are loans to certain employees and directors of the Company granted in order to help finance the purchase of the Company's common shares. Such loans have been issued at market conditions, bear interest at 3% and are evidenced by individual promissory notes secured by the shares purchased under the loan arrangements. On March 3, 2017 the Board of Directors approved a plan to discontinue this program on a prospective basis.

# Recently Adopted Accounting Standards

## Interest Rate Benchmark Reform

During the first quarter of 2020, the Company adopted amendments ("Amendments") to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures (Amendments)*, applicable from November 1, 2019. These Amendments modify certain hedge accounting requirements to provide relief from the effect of uncertainty caused by interest rate benchmark reform ("the Reform") prior to the transition to alternative interest rates. The adoption of the Amendments had no impact to our unaudited interim condensed consolidated financial statements.

The Company will cease to apply these Amendments as interbank offered rate ("IBOR") based cash flows transition to new risk-free rates or when the hedging relationships to which the relief is applied are discontinued.

### Hedge Accounting

The Company's accounting policies relating to hedge accounting are described in note 2 and note 20 of the Company's consolidated financial statements for the year ended December 31, 2019. The Company applies hedge accounting when designated hedging instruments are highly effective in offsetting changes in the fair value or cash flows of the hedged items at inception and on an ongoing basis. Retrospective assessments are performed to demonstrate that the relationship has been effective since designation of the hedge and prospective assessments to evaluate whether the hedge is expected to be effective over the remaining term of the hedge. While uncertainty due to IBOR reform exists, the Company's prospective effectiveness testing is based on existing hedged cash flows or hedged risks. Any ineffectiveness arising from retrospective testing is recognized in net income.

In addition to potential sources of ineffectiveness outlined in note 20 of the Company's consolidated financial statements for the year ended December 31, 2019, the Reform may result in ineffectiveness as the transition of hedged items and related hedging instruments from IBORs to new risk-free rates may occur at different times. This may result in different impacts on the valuation or cash flow variability of hedged items and related hedging instruments.

### Cash flow hedges

The Company applies hedge accounting for cash flow hedges when the cash flows giving rise to the risk being hedged have a high probability of occurring. While uncertainty due to IBOR reform exists, the Company applies the relief provided by the Amendments that the IBOR benchmarks, on which the highly probable hedged cash flows are based, are not altered as a result of the Reform. In addition, associated cash flow hedge reserves are not recycled into net income solely due to changes related to the transition from IBOR to new risk-free rates.

### Hedging relationships impacted by interest rate benchmark reform

The following table presents the notional amount of the Company's hedging instruments which reference IBOR that will expire after 2021and will be affected by the Reform. The notional amounts of the Company's hedging instruments also approximates the extent of the risk exposure the Company manage through hedging relationships:

| | As at June 30, 2020<br>Notional/Principal amount[(1)]<br>$ |
|---|---|
| **Interest rate contracts** | |
| USD LIBOR | **4,647,385** |
| | **4,647,385** |

1. Excludes interest rate contracts and non-derivative instruments which reference rates to multi-rates jurisdictions, including the Canadian Dollar Offered Rate ("CDOR"), Australian Bank Bill Swap Rates ("BBSW"), and New Zealand Bank Bill Rates ("BBR").

# Future Accounting Changes

### Amendments to IAS 1 and IAS 8: *Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Company.

# Internal Control over Disclosure and Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures to ensure that material information is being recorded, processed, summarized, and reported to senior management, including the certifying officers and other members of the Board of Directors, on a timely basis, so that appropriate decisions can be made regarding public disclosure. In addition, the CEO and CFO are responsible for establishing and maintaining internal controls over financial reporting to a standard that provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

*Limitations on the effectiveness of disclosure controls and internal controls over financial reporting*

It should be noted that while the Company's CEO and CFO believe that the Company's internal control system and disclosure controls and procedures provide a reasonable level of assurance that the objectives of the control systems are met, they do not expect that the Company's control systems will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any designs will succeed in achieving its stated goals under all potential conditions.

The Company has an established process in place which includes the continuous testing and reporting of the results to senior management and the Board of Directors on the effectiveness of the disclosure controls and internal controls over financial reporting.

# IFRS to Non-IFRS Reconciliations

The following table provides a reconciliation of IFRS to non-IFRS measures related to the operations of the Company:

| | | As at and for the three-month periods ended | | | As at and for the six-month periods ended | |
|---|---|---|---|---|---|---|
| (in $000's for stated values) | | **June 30, 2020** | March 31, 2020 | June 30, 2019 | **June 30, 2020** | June 30, 2019 |
| **Reported and adjusted income measures** | | | | | | |
| Net income | A | **58,594** | 79,358 | 64,061 | **137,952** | 144,534 |
| Adjustments: | | | | | | |
| Amortization of debenture discount | | **2,003** | 2,555 | 4,492 | **4,558** | 8,147 |
| Share-based compensation | | **4,427** | 5,437 | 5,410 | **9,864** | 10,580 |
| Amortization of intangible assets from acquisitions | | **9,660** | 10,223 | 9,112 | **19,883** | 18,288 |
| Restructuring and transformation costs | | **18,663** | 14,995 | 21,949 | **33,658** | 28,687 |
| Net loss on disposition of 19th Capital | | **13,862** | — | — | **13,862** | — |
| Provision of income taxes | | **3,938** | 16,697 | 21,190 | **20,635** | 36,602 |
| (Gain) loss on investments | | **(3)** | 57 | (238) | **54** | 1,092 |
| **Before-tax adjusted operating income** | B | **111,144** | 129,322 | 125,976 | **240,466** | 247,930 |
| Provision for taxes applicable to adjusted operating income | C | **17,783** | 23,925 | 24,565 | **41,708** | 45,907 |
| **After-tax adjusted operating income** | D=B-C | **93,361** | 105,397 | 101,411 | **198,758** | 202,023 |
| Cumulative preferred share dividends during the period | Y | **10,906** | 10,906 | 11,164 | **21,812** | 22,328 |
| **After-tax adjusted operating income attributable to common shareholders** | D1= D-Y | **82,455** | 94,491 | 90,247 | **176,946** | 179,695 |
| **Selected statement of financial position amounts** | | | | | | |
| Total Finance receivables, before allowance for credit losses | E | **11,302,278** | 12,471,057 | 12,112,684 | **11,302,278** | 12,112,684 |
| Allowance for credit losses | F | **20,000** | 20,000 | 8,183 | **20,000** | 8,183 |
| Earning assets | | | | | | |
| Net investment in finance receivable | G | **9,055,283** | 9,982,138 | 10,495,940 | **9,055,283** | 10,495,940 |
| Equipment under operating leases | H | **1,970,298** | 2,017,498 | 2,219,003 | **1,970,298** | 2,219,003 |
| Total earning assets | I=G+H | **11,025,581** | 11,999,636 | 12,714,943 | **11,025,581** | 12,714,943 |
| Average earning assets, net | J | **11,626,619** | 11,909,612 | 13,064,470 | **11,768,287** | 13,238,071 |
| Goodwill and intangible assets | K | **2,127,036** | 2,188,380 | 2,070,504 | **2,127,036** | 2,070,504 |
| Average goodwill and intangible assets | L | **2,150,659** | 2,118,833 | 2,105,140 | **2,134,746** | 2,099,590 |
| Borrowings | M | **11,758,735** | 12,399,483 | 12,200,817 | **11,758,735** | 12,200,817 |
| Unsecured convertible debentures | N | **151,976** | 715,978 | 711,305 | **151,976** | 711,305 |
| Total debt | O=M+N | **11,910,711** | 13,115,461 | 12,912,122 | **11,910,711** | 12,912,122 |
| Average debt | P | **12,994,547** | 13,056,159 | 13,162,242 | **13,025,353** | 13,360,999 |
| Total shareholders' equity | Q | **3,878,854** | 3,948,278 | 3,937,354 | **3,878,854** | 3,937,354 |
| Preferred shares | R | **680,412** | 680,412 | 680,412 | **680,412** | 680,412 |
| Common shareholders' equity | S=Q-R | **3,198,442** | 3,267,866 | 3,256,942 | **3,198,442** | 3,256,942 |
| Average common shareholders' equity | T | **3,245,420** | 3,254,520 | 3,315,944 | **3,250,164** | 3,266,489 |
| Average total shareholders' equity | U | **3,925,832** | 3,934,931 | 3,996,356 | **3,930,576** | 3,946,901 |

Non-IFRS and IFRS key annualized operating ratios and per share information of the operations of the Company:

| | | As at and for the three-month periods ended | | | As at and for the six-month periods ended | |
|---|---|---|---|---|---|---|
| (in $000's for stated values, except ratios and per share amounts) | | **June 30, 2020** | March 31, 2020 | June 30, 2019 | **June 30, 2020** | June 30, 2019 |
| **Key annualized operating ratios** | | | | | | |
| **Leverage ratios** | | | | | | |
| Financial leverage ratio | O/Q | **3.07** | 3.32 | 3.28 | **3.07** | 3.28 |
| Tangible leverage ratio | O/ (Q-K) | **6.80** | 7.45 | 6.92 | **6.80** | 6.92 |
| Average financial leverage ratio | P/U | **3.31** | 3.32 | 3.29 | **3.31** | 3.39 |
| Average tangible leverage ratio | P/(U-L) | **7.32** | 7.19 | 6.96 | **7.25** | 7.23 |
| **Other key operating ratios** | | | | | | |
| Allowance for credit losses as a % of total finance receivables before allowance | F/E | **0.18 %** | 0.16 % | 0.07 % | **0.18 %** | 0.07 % |
| Adjusted operating income on average earning assets | B/J | **3.82 %** | 4.34 % | 3.86 % | **4.09 %** | 3.75 % |
| After-tax adjusted operating income on average tangible total equity of Element | D/(U-L) | **21.04 %** | 23.21 % | 21.45 % | **22.14 %** | 21.87 % |
| **Per share information** | | | | | | |
| Number of shares outstanding | V | **437,953** | 437,682 | 434,854 | **437,953** | 434,854 |
| Weighted average number of shares outstanding [basic] | W | **437,849** | 437,291 | 434,694 | **437,570** | 434,158 |
| Pro forma diluted average number of shares outstanding | X | **453,394** | 485,662 | 449,560 | **453,115** | 449,269 |
| Cumulative preferred share dividends during the period | Y | **10,906** | 10,906 | 11,164 | **21,812** | 22,328 |
| Other effects of dilution on an adjusted operating income basis | Z | **$ 1,780** | $ 7,735 | $ 6,984 | **$ 3,507** | $ 12,407 |
| Net income per share [basic] | (A-Y)/W | **$ 0.11** | $ 0.16 | $ 0.12 | **$ 0.27** | $ 0.28 |
| Net income per share [diluted] | | **$ 0.11** | $ 0.16 | $ 0.12 | **$ 0.26** | $ 0.28 |
| Book value per share | S/V | **$ 7.30** | $ 7.47 | $ 7.49 | **$ 7.30** | $ 7.49 |
| **After-tax adjusted operating income per share [basic]** | (D1)/W | **$ 0.19** | $ 0.22 | $ 0.21 | **$ 0.40** | $ 0.41 |
| **After-tax pro forma diluted adjusted operating income per share** | (D1+Z)/X | **$ 0.19** | $ 0.21 | $ 0.22 | **$ 0.40** | $ 0.43 |

The following table provides a reconciliation of the after-tax adjusted operating income per share and the after-tax pro forma diluted adjusted operating income per share of the operations of the Company for the three-month period ended June 30, 2020:

| (in $000's for stated values, except per share amounts) | **Amount $** | **Weighted average number of shares outstanding applicable** | **Amount per share $** |
|---|---|---|---|
| Adjusted operating income before taxes | **111,144** | | **0.25** |
| Less: | | | |
| Income taxes related to adjusted operating income | **(17,783)** | | **(0.04)** |
| Preferred share dividends | **(10,906)** | | **(0.02)** |
| After-tax adjusted operating income attributable to common shareholders | **82,455** | **437,848,713** | **0.19** |
| Dilution items: | | | |
| Employee stock option plan | **—** | **1,230,160** | **—** |
| Convertible debentures (after-tax net interest expense) | **1,780** | **14,315,353** | **—** |
| After-tax pro forma diluted adjusted operating income | **84,235** | **453,394,226** | **0.19** |

# Description of Non-IFRS Measures

Our unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and the accounting policies we adopted in accordance with IFRS. These unaudited interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at June 30, 2020 and December 31, 2019, the results of operations, comprehensive income and cash flows for the three- and six-month periods ended June 30, 2020 and June 30, 2019.

Management uses both IFRS and Non-IFRS Measures to monitor and assess the operating performance of the Company's operations. Throughout this MD&A, management uses the following terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

**Adjusted operating expenses**

Adjusted operating expenses are equal to salaries, wages and benefits, general and administrative expenses, and depreciation and amortization.

**Adjusted operating income or Before-tax adjusted operating income**

Adjusted operating income reflects net income or loss for the period adjusted for the amortization of debenture discount, share-based compensation, amortization of intangible assets from acquisitions, restructuring and transformation costs, impairment on 19$^{th}$ Capital, provision or recovery of income taxes, and loss or income on investments.

**Adjusted operating income on average earning assets**

Adjusted operating income on average earning assets is the adjusted operating income for the period divided by the average earning assets outstanding throughout the period, presented on an annualized basis.

**After-tax adjusted operating income**

After-tax adjusted operating income reflects the adjusted operating income after the application of the Company's effective tax rates.

**After-tax adjusted operating income attributable to common shareholders**

After-tax adjusted operating income attributable to common shareholders is computed as after-tax adjusted operating income less the cumulative preferred share dividends for the period.

**After-tax adjusted operating income per share**

After-tax adjusted operating income per share is computed as the after-tax adjusted operating income attributable to common shareholders for the period, divided by the basic weighted average number of common shares outstanding during the period.

**After-tax adjusted operating income on average tangible total equity of Element**

After-tax adjusted operating income on average tangible equity of Element is the after-tax adjusted operating income for the period, divided by the net of the average total shareholders' equity outstanding throughout the period, less average goodwill and intangible assets.

**After-tax pro forma diluted adjusted operating income per share**

After-tax pro forma diluted adjusted operating income per share computes the diluted after-tax adjusted operating income per share for the period on the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises. Convertible debentures are assumed to be converted at the beginning of the period (or at issuance if issued during the period on a time weighted basis) with the other effects of dilution adjusted operating income basis added to the adjusted operating income, if they are dilutive.

**Allowance for credit losses as a percentage of total finance receivables**

Allowance for credit losses as a percentage of total finance receivables is the allowance for credit losses at the end of the period divided by the total finance receivables (gross of the allowance for credit losses) at the end of the period.

**Assets under management**

Assets under management are the sum of earning assets, interim funding, and the value of assets syndicated by Element net of depreciation.

**Average cost of borrowing or average cost of debt**

Average cost of borrowing or average cost of debt is equal to interest expense divided by the average debt outstanding during the period and is presented on an annualized basis.

**Average debt outstanding**

Average debt outstanding is calculated as the sum of monthly average borrowings outstanding under all of the Company's borrowings facilities and the convertible debentures outstanding throughout the period.

**Average common shareholders' equity**

Average common shareholders' equity is calculated as the monthly average common shareholders' equity during the period.

**Average financial leverage or average financial leverage ratio**

Average financial leverage or average financial leverage ratio is calculated as average debt outstanding during the period, divided by average total shareholders' equity outstanding during the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and or existing debt covenants.

**Average outstanding earning assets or average net earning assets**

Average outstanding earning assets or average net earning assets is the sum of the average outstanding finance receivable, average equipment under operating leases and average other earning assets. Average outstanding finance receivables or average finance receivables is the sum of [i] the average finance receivables net investment balance (gross investment less unearned income) outstanding during the period and [ii] the average investment in managed fund during the period. Average equipment under operating leases is the monthly average equipment under operating leases outstanding during the period and is calculated net of accumulated depreciation. Average other earning assets is the monthly average of other earning assets outstanding during the period.

**Average goodwill and intangible assets**

Average goodwill and intangible assets is the monthly average balances of goodwill and intangible assets during the period.

**Average shareholders' equity**

Average shareholders' equity is calculated as the monthly average balance of shareholders' equity during the period.

**Average tangible leverage ratio**

The average tangible leverage ratio has been computed as the sum of the average borrowings and average convertible debentures, divided by the net of total average shareholders' equity less average goodwill and intangible assets during the period.

**Common shareholders' equity**

Common shareholders' equity is total shareholders' equity less principal face value of the preferred shares outstanding.

**Earning assets or total earning assets or finance earning assets**

Earning assets are the sum of the total net investment in finance receivables, total carrying value of the equipment under operating leases and carrying value of other earning assets.

**Finance assets or total finance assets**

Finance assets are the sum of the total finance receivables and total carrying value of the equipment under operating leases.

**Financial leverage or financial leverage ratio**

Financial leverage or financial leverage ratio is calculated as total debt (the sum of borrowings and convertible debentures) outstanding at the end of the period, divided by total shareholders' equity outstanding at the end of the period. Financial leverage refers to the use of debt to acquire/finance additional finance receivables and provides an indication of future potential ability to increase the level of debt when compared to specific industry-standard and/or existing debt covenants.

**Free cash flow per share**

Free cash flow per share is calculated by adjusting before-tax adjusted operating income for certain non-cash and cash revenue and expenses to get total cash from operations. Cash expenses of common and preferred share dividends and sustaining capital investments are subtracted from cash from operations to arrive at free cash flow. Free cash flow is then divided by the weighted average number of outstanding common shares for the period noted. Sustaining capital investments are defined by the Company as expenditures management considers necessary to supporting long-term growth.

**Net interest and rental revenue**

Net interest and rental revenue is calculated as the sum of net interest income, rental revenue net of depreciation, less interest expense. Net interest and rental revenue refers to net financing income earned from finance receivables, equipment under operating leases, and other earning assets, after considering financing costs and provision for credit losses.

**Net interest and rental revenue margin or NIM**

Net interest and rental revenue yield to average earning assets or NIM is calculated as net interest and rental revenue divided by average earning assets outstanding throughout the period on an annualized basis.

**Other earning assets**

Other earning assets are other yield generating assets that are not finance receivables or equipment under operating leases.

**Other effects of dilution adjusted operating income basis**

Other effects of dilution adjusted operating income basis represents, if dilutive, the add back of the after-tax convertible debt interest and the amortization of deferred financing costs related to the convertible debt, and excludes the add back of the after-tax amortization of the discount of the convertible debt (which is included on an IFRS basis).

**Pro forma diluted average number of shares outstanding**

Pro forma diluted average number of shares outstanding is the basic weighted average number of shares outstanding, plus the assumption that all outstanding options at the end of the period that have an exercise price less than the closing market value on that day, are fully vested on that day and are fully exercised at their exercise price, and a corresponding number of shares are repurchased at the closing market value on that day using the cash proceeds from these option exercises.

**Return on equity**

Return on equity is the current period end after-tax adjusted operating income less preferred share dividends, annualized, divided by the average of the current and prior period ending total shareholders' equity less preferred share equity.

**Tangible leverage ratio**

The tangible leverage ratio has been computed as the sum of borrowings and convertible debentures divided by the net of total shareholders' equity less goodwill and intangible assets at the period end.

**Tangible leverage ratio excluding non-recourse warehouse credit facility**

The tangible leverage ratio has been computed as the sum of borrowings and convertible debentures less the non-recourse warehouse credit facility divided by the net of total shareholders' equity less goodwill and intangible assets at the period end.

# Updated Share Information

The Company is currently authorized to issue (i) an unlimited number of common shares without nominal or par value and (ii) an unlimited number of preferred shares, issuable in series.

As at July 28, 2020, the Company had 438,554,227 common shares issued and outstanding. In addition, 14,905,151 options were issued and outstanding under the Company's stock option plan as at July 28, 2020. These convertible securities are convertible into, or exercisable for common shares of the Company of which 13,279,277 are exercisable at June 30, 2020 for proceeds to the Company upon exercise of $142.1 million. In addition, the Company had convertible debentures outstanding that are convertible into an aggregate of 14,315,353 common shares.

As at July 28, 2020, the Company had 4,600,000 Preferred Shares, Series A, 5,126,400 Preferred Shares, Series C, 5,321,900 Preferred Shares, Series E, 6,900,000 Preferred Shares, Series G and 6,000,000 Preferred Shares, Series I issued and outstanding.

This Management's Discussion and Analysis is dated as of the close of business on July 28, 2020.